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Final Report

POST-ATTACK ECONOMIC STABILIZATION ISSUES
FOR FEDERAL, STATE, AND LOCAL GOVERNMENTS

For the

Federal Emergency Management Agency
Washington, D.C. 20472

Contract EMW-83-C-125
Work Unit 5231B

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Accepted as a Working Paper only

February 1985

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POST-ATTACK ECONOMIC STABILIZATION ISSUES
FOR FEDERAL, STATE, AND LOCAL GOVERNMENTS

by

R. K. Laurino
F. W. Dresch
S. D. Stratton
H. T. Ellis

For the
Federal Emergency Management Agency

Contract EMW-83-C-1253
Work Unit 5231B

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psychological effects attendant to E.S. controls; an evaluation of current and proposed payment systems that might be used for payments and rationing; and proposals for updating E.S. guidance documents on rents, salaries and wages, prices, rationing, and money, credit, and banking. *Keywords:*

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EXECUTIVE SUMMARY

POST-ATTACK ECONOMIC STABILIZATION ISSUES FOR FEDERAL, STATE,

AND LOCAL GOVERNMENTS

(FEMA CONTRACT EMW-83-C-1253)

1. Background and Objectives

As part of the general effort of the U.S. Government to increase readiness for a national security emergency, FEMA has sponsored this project to improve the level of readiness of government to undertake an economic stabilization (E.S.) program. The study includes: A review and evaluation of the capabilities of five Federal, State, and local Agencies to undertake and administer such a program; a review and evaluation of the authorities for such actions; an examination of the timing and mix of E.S. measures in a pre-attack evacuation and post-attack periods; a study of possible psychological effects attendant to E.S. controls; and an evaluation of current and proposed payments systems that might be used for payments and rationing. The insights developed from this and other sources were used to produce new documents covering proposed E.S. guidelines for prices; wages and salaries; rents; money, credit and banking; and consumer rationing.

2. Economic Stabilization Measures for Various Conditions

While the focus of this study is on the intense crisis and post-attack periods, economic stabilization measures could occur in periods short of these extreme conditions. These pre-existing measures would have a significant effect on the capability to carry out an E.S. program in an extreme emergency. The range of conditions are characterized as follows:

CONDITION I: Peacetime

CONDITION II: National emergency (Threat of war)

CONDITION IIIA: Mobilization with limited controls

CONDITION 111B: Mobilization with full controls

CONDITION IV: Post-attack recovery

The E.S. objective in the peacetime conditions (I-III) is to maintain a market economy with minimum inflation. The objectives of E.S. programs in crisis or post attack are to maintain the confidence of business and the population in the viability of the economic system and to assist resource management (R.M.) programs in the equitable distribution of consumer goods and services.

3. Review of Federal, State, and Local Readiness

A number of elements determine the readiness of an Agency to undertake its responsibilities for economic stabilization in a national emergency. These include: adequate authority, clear responsibility, a concept of operations, systems and measures, staffing and staffing plans, guidance and training, and other supporting resources.

To sample the levels of readiness of government, FEMA selected five agencies for review: Department of Labor; Department of Housing and Urban Development; Department of Agriculture; the State of California; and the County of San Mateo, California. Discussions were held by the project teams with the appropriate representatives of these Agencies to determine the status of each of the elements of readiness.

Federal authority for E.S. planning in peacetime stems from Executive Order 11490, as amended. The E.O. directs FEMA to work in cooperation with other Federal Agencies on planning emergency preparedness measures including economic stabilization. Some other Federal Agencies are also specifically tasked to conduct E.S. planning in their areas of expertise (e.g., Treasury, DOL, Federal Bank Supervisory Agencies). Other Federal Agencies are given a supporting role in assisting FEMA with emergency planning.

The study concluded that the existing Federal authority was generally adequate for peacetime E.S. planning, but more specific E.S. responsibilities should be delegated to supporting Agencies to be consistent with their resource management responsibilities.

No Federal authority for implementing an E.S. program currently exists for conditions short of evacuation or attack. In the event of an impending emergency, there is draft legislation that could be quickly submitted for approval of Congress and the President. To prevent unacceptable delays, the study concluded that a means should be found for undertaking actions to increase readiness at Federal, State, and local levels in an emergency prior to the completion of legislative action.

Concepts of operation also appear to need some updating. The "steady state" assumptions of prior planning did not appear adequate to cope with the "dynamic" changes expected in the first few weeks or months beginning with an intense crisis or a nuclear attack. The E.S. organization should be sufficiently in touch with evolving conditions to be able to anticipate major problems requiring prompt E.S. actions. It also appears necessary for E.S. operations to be conducted in close cooperation with resource management operations.

Current staff of Federal Agencies devoted to E.S. planning is minimal. With the exception of FEMA, none of the agencies examined had any staff with full time assignments in E.S. planning. Under emergency conditions, Federal Agencies with direct responsibilities have staffing plans that could be implemented. While core staff are to come from re-assignment of current agency personnel, full staffing at national, regional, and local levels would require augmentation of staff from other sources (e.g., State and local government, private business, National Defense Executive Reservists, etc.).

Training activities are at a very low level. With the exception of periodic lectures by FEMA staff to Federal, State, local, and banking groups, there is little activity. Various agencies and jurisdictions have copies of E.S. guidance documents prepared in 1965, but little use appears to have been made of these documents in the last several years. The Department of Labor and the Department of Agriculture have published more recent documents containing E.S. information; however, planned training activities have not as yet taken place.

The study did not review sufficient State and local agencies to provide the basis for a comprehensive evaluation of the various elements of readiness at the State and local levels in the United States. However, it is our general impression from evidence of the current and earlier studies, that little has been done at the State level since the planning effort in response to the 1965 Federal guidance. At the local level, even less has been done.

4. Psychological Effects of a National Emergency and E.S. Controls

Historical experience suggests that the psychological effects of E.S. controls be taken in the context of the prevailing conditions of the national emergency. The intensity of conditions of the national emergency would be as great or greater than those found in the past. The escalating crisis would involve general perceptions of likelihood of a major conflict or actual conflict that threatens to grow to strategic nuclear war. Evacuation includes the perception of imminent nuclear war and spontaneous or planned movement of a large segment of the population out of the major urban areas. The post-attack situation would include a situation of damage beyond anything experienced in the United States. Under these conditions, E.S. controls could not be expected to ameliorate all the psychological effects. The role of E.S. would be primarily to support the direct management (resource management) of the economy.

The principal objectives of E.S. controls in this period would be to ameliorate such psychological effects as loss of confidence in the viability of the economic system and the future rewards for current labor. Accomplishing these objectives will be important to maintain or increase incentives of business and labor to increase production of essential goods and services and to cooperate with recovery efforts, in general.

5. The Mix and Time Phasing of E.S. Controls in a National Security Emergency

During a period of a national security emergency, featuring a population evacuation and/or a strategic attack, the distortion in the economy would be sufficiently great that all types of R.M. and E.S. measures would have to be introduced promptly. The question of mix of controls during such a period, therefore, relates primarily to coverage and to the severity of the constraints imposed.

The principal tool for the E.S. program in this period would be the General Freeze Order covering prices, wages and salaries, and rents. If the General Freeze Order has been instituted prior to the crisis and attack, it would be maintained and would be augmented by a comprehensive consumer rationing program. If a previously instituted Freeze had given way to a E.S. follow-on program (i.e., tailored controls), the General Freeze Order would be re-imposed during crisis or attack.

A number of specific problems arise in these periods that require a combination of resource management, economic stabilization, and rationing; these must all be strictly controlled to prevent major inequities from developing among population groups (e.g., between host and evacuee populations, regular and new workers, etc.). The banking system will need to implement plans for conducting minimum financial operations in the presence of inoperative centralized processing systems (e.g., check clearing houses, etc.). Some reassurances to the population and business may be needed as to the ultimate resolutions of financial and legal problems created by the evacuation or attack.

6. Evaluation of Current and Proposed Payment and Rationing Systems

Because of the stringencies of a national security environment, alternative methods of controlling consumer rationing and making payments need to be examined. In this study, five pairs of payment and ration mechanisms have been examined. They include:

- (1) Free distribution (i.e., the Dole system)
- (2) Currency with punch card ration evidence
- (3) Checks with ticket card ration evidence
- (4) Credit cards with ticket cards
- (5) Debit-smart cards for payment and ration evidence

The Dole system has always had the advantage of simplicity and can function adequately in the disrupted conditions of an evacuation or early post-attack. It has

**POST-ATTACK ECONOMIC STABILIZATION ISSUES
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I. INTRODUCTION

A. Background

While it is the policy of the Federal Government to minimize the intrusion of controls upon the national economy, it is recognized that in times of national emergency an increase in such controls would be necessary. The U.S. Government has developed and is developing a variety of authorities and plans which could be used in maintaining stable economic conditions during any major national emergency. This activity provides that

"...particular emphasis should be given to measures which minimize inflation and shortages, enhance morale and the perception that the burdens of the emergency are being fairly shared and facilitate an orderly return to a normal economy as soon as possible...".¹

Economic stabilization (E.S.) controls are generally classified as indirect or direct measures. Indirect measures comprise the range of monetary and fiscal and selective credit controls available to the Federal Government. Some of the indirect measures employed in peacetime, in an augmented form, can be appropriate for an impacted economy. When effective, they are more desirable than direct measures because they are generally more equitable and are much easier to administer and enforce. However, indirect measures do not affect the economy strongly or rapidly enough to control by themselves an economy subject to the impacts of a national security emergency.

Direct controls include measures for controlling prices, wages, salaries, and benefits; and rents as well as consumer rationing. When circumstances of a national emergency cause normal markets to cease to function in an orderly manner, Federal policy calls for the use of direct controls as "tools of the last resort". These measures, when applied in a timely manner, are expected to halt the deteriorating market economy and collective, irrational behavior of business and consumers. Due to the negative effects on the economy and the costs of administration, the policy is to remove such direct controls as soon as possible.

As part of the general effort by the U.S. Government to increase readiness for a national security emergency, FEMA is working to improve the level of readiness of

government to undertake an economic stabilization program. During the period 1962-1965, the Federal Government developed a series of documents ⁽²⁻⁵⁾ for economic stabilization planning by Federal, State, and local government. The Federal Government also produced a planning document for describing the controls for money, credit, and banking.⁶ These documents were issued to State and local governments and resulted in some planning at these levels such as inclusion of this material in the State level emergency management plans. Since that time some research and planning has been underway at the Federal level, but for the most part, the newest concepts and views of possible strategic conditions are not included in plans at any government level.

The present study contributes to the understanding and development of the formal guidance needed for improving E.S. planning at Federal, State, and local levels. The study also includes an investigation of the constraints on E.S. control systems and the opportunities that might exist in the future for improving these systems.

B. Scope of Work

- 1) Review and evaluate the readiness capability (as stated in EO 11490), of five Federal, state, and local government agencies and departments, to implement, administer, enforce, and decontrol emergency economic stabilization measures in a population relocation posture and in a post-nuclear attack environment involving an "Islands of Survival" concept.
- 2) Review and evaluate (in accordance with EO 11490) the adequacy of existing emergency economic stabilization authority and legislation of the selected five Federal, state, and local government agencies and departments to regulate price; rent; wage and salary; money, credit and banking; and consumer rationing during a national emergency and recommend revisions that will increase the readiness capability.
- 3) Review the relevant guidelines and instructions to determine the optimum mix and time-phased implementation and enforcement in a national emergency relocation posture and post-nuclear attack recovery and recommend appropriate revisions.

- 4) Identify potential psychological effects of emergency economic stabilization controls during a national emergency.
- 5) Evaluate advantages and disadvantages of current and proposed payment systems applicable in a national economic emergency including population relocation and post-nuclear attack reconstitution and recovery environment.
- 6) Develop standardized format and revise the price; rent, wage and salary; money, credit and banking; and consumer rationing emergency economic stabilization guidelines and instructions.

C. Environmental Contexts Requiring Economic Stabilization

1. Operational Conditions

Economic stabilization programs must be suitable for implementation in any of the operational conditions that might arise as a result of a national security emergency. While the need for these programs would be most acute following a strategic nuclear attack on the United States, some measures, such as rationing of motor fuel, might be instituted prior to crisis or attack.

Figure I-1 depicts the range of conditions under which economic stabilization measures might be required. The figure shows an "intensity of emergency" profile developing over time for a possible scenario. Increases in intensity could occur if an international event is clearly recognized as an overt and immediate threat. The intensity could continue to increase through various stages of U.S. defense mobilization possibly ending in extreme crisis and nuclear attack. On the other hand, the confrontation might be resolved at any level of intensity short of attack. To meet these conditions, economic stabilization and other emergency planning must be responsive to the nation's increased levels of readiness as the situation changes, while minimizing the disruption to the nation's economic activities.

Following a strategic nuclear attack, the nation could consist of "islands of survival" interspersed among areas of widespread damage. These islands could include part or all of a State or portions of several States in relatively low population areas.

Figure I-1

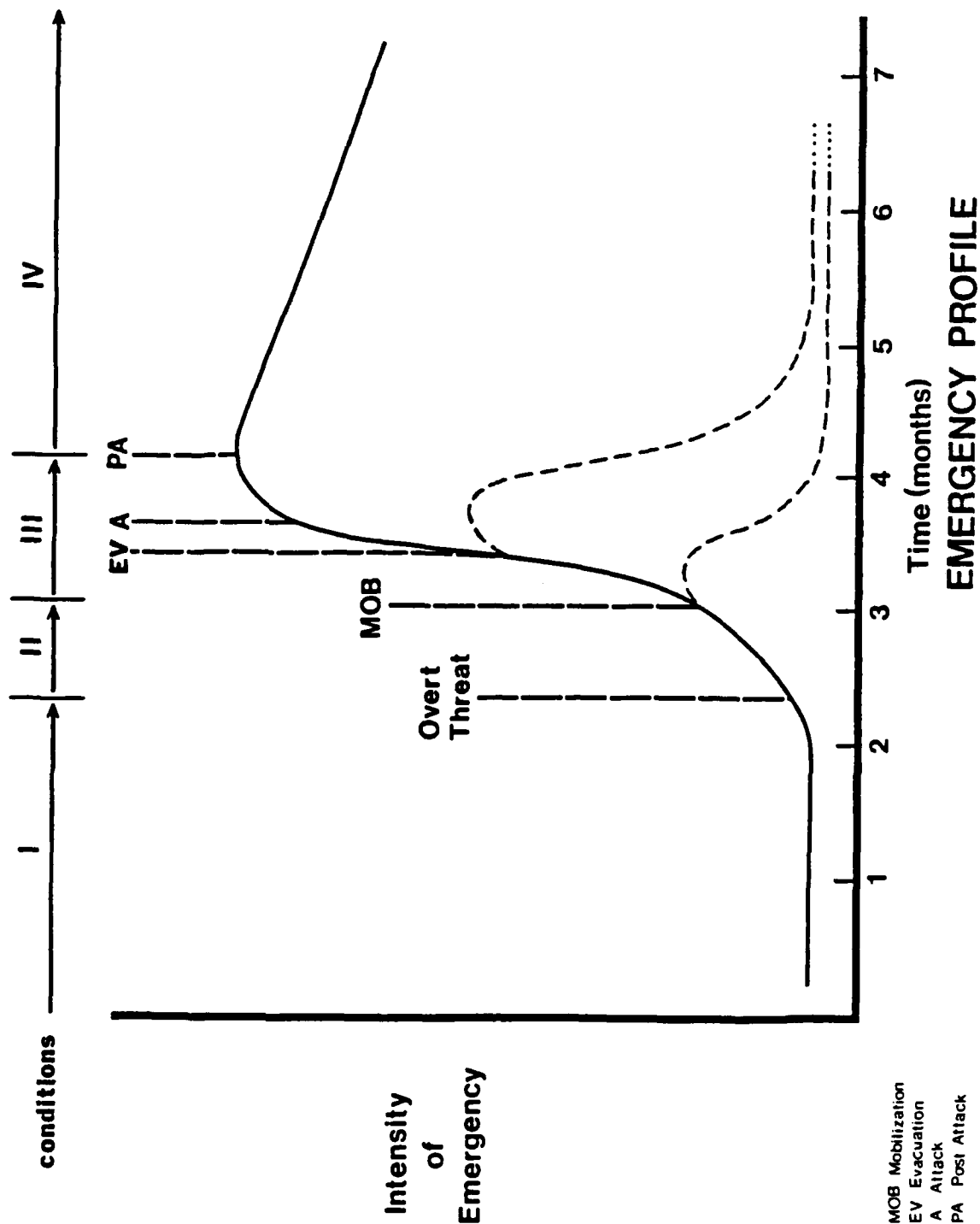


Figure 1

However, it is also possible that the "Islands of Survival" could include significant portions of urban areas. In the absence of a Federal stabilization program in an "island of survival", States and localities should be prepared to implement and administer a stabilization program.

Economic Stabilization Measures for Various Conditions

Due to the possibility of a buildup of tension over time, the state of readiness and the types of economic stabilization measures taken can be considered in terms of a number of conditions⁷. They are:

- CONDITION I: Peacetime
- CONDITION II: National emergency (threat of war)
- CONDITION IIIA: Mobilization with limited controls
- CONDITION IIIB: Mobilization with full controls
- CONDITION IV: Post-attack recovery

Objectives and economic stabilization measures for conditions of increasing intensity are shown in Table I-1.

Condition I, Peacetime, usually uses only indirect controls such as fiscal and monetary policies to maintain a healthy economy. It may be considered the base case.

Key objectives of Condition II are limited to moderating private business expectations of shortages and inflation and supporting U.S. international measures (economic defense) that could improve the stability of the domestic economy.

With increasing tension attendant to Condition III (Mobilization), the principal objective would be to subdue inflation while increasing the defense share of the GNP. At the early stages of mobilization, this might be accomplished by indirect measures such as emergency taxes and restrictive monetary and credit policies accompanied by a system of priorities and allocations for key resources. Continued movement toward full mobilization might bring with it the need for selective credit controls and direct controls, including a Federal freeze order on prices; wages and salaries; and rents. The occurrence of an evacuation or a strategic attack would also require rationing of

Table I-1

ECONOMIC STABILIZATION OBJECTIVES AND MEASURES

Conditions	Key Objectives	Possible Economic Stabilization Measures
I Peacetime	o Normal economic climate	o Normal fiscal and monetary policies
II National Emergency (Threat of war)	o Reduce private and business expectations of shortages and inflation	o Fiscal policies, such as emergency taxes
		o Other indirect controls, such as changes in Federal Reserve Board policies
	o Support U.S. international economic measures that could affect the domestic economy	
IIIA Mobilization with limited controls	o Limit inflation while increasing defense share of GNP	o Fiscal policies, such as emergency taxes
		o Stronger indirect controls, such as credit tightening
		o Priorities and allocation system for key resources
		o Advanced notice of direct controls and rollback provisions
IIIB Mobilization with full controls	o Limit inflation while increasing defense share of GNP	o Freeze on prices, wages, and rents
		o Continued indirect controls, including credit controls
		o Continued priorities and allocation system for key resources
Evacuation	o Maintain basic economic system	o Rationing
	Promote equity	o Selective moratoria on debts, contracts, etc.
IV Post-attack recovery	o Reconstitute viable economy	o Freeze on prices, wages, and rents
		o Rationing
	o Restore a balanced recovery base	o Adjustment of direct controls
		o Continued indirect controls
		o Loss indemnification
	o Promote equity	o Clarification of ownership
		o Selective moratoria on debts, contracts, etc.

consumer goods and services. Some of these measures could be implemented earlier, depending upon the state of the economy and Federal-level decisions.

Objectives under Condition IV following strategic attack on the U.S. would be designed to reconstitute a viable economic system as soon as possible to support the surviving populations. As previously noted, the post-attack period would require States and localities to implement and administer price stabilization and consumer rationing in the event that no such Federal programs were imposed prior to the attack. In the event that Federal programs had been made effective prior to the attack, States and localities should pattern their regulations after those of the Federal programs. Such action will facilitate the re-establishment of Federal programs for national recovery and indemnification, and will clarify Federal programs for loss sharing and ownership, and other measures promoting economic recovery.

II. REVIEW OF FEDERAL, STATE, AND LOCAL READINESS

A. Requirements for Readiness

The Federal Emergency Management Agency, with the assistance of other Federal agencies, is responsible for the development and maintenance of a comprehensive standby system for the prompt and effective stabilization of the economy in time of severe emergency, such as a major mobilization or nuclear conflict. This responsibility requires the maintenance of updated enabling legislation, plans, regulations, and strategies for implementing the various programs necessary to mitigate the adverse impacts of the emergency on the economy.

Executive Order 11490, as amended,⁸ directs planning in the area of economic stabilization. The E.O. assigns planning duties to all heads of Federal departments and Agencies for emergency planning. Those specifically tasked with E.S. planning responsibilities include: the Department of Treasury, the Federal Reserve Board, other financial Agencies, and the Department of Labor. Other Agencies, such as the Department of Housing and Urban Development, Department of Commerce, the Department of Agriculture, and others have responsibilities to assist FEMA in areas of their specialization.

Under conditions of extreme emergency following an attack, it is anticipated that State and local governments would initiate and administer certain direct controls until the Federal Government was able to resume administration of the controls. Consequently, States and their administrative subdivisions have a responsibility for some planning to provide a basis for action in a national emergency.

As part of its overall function, FEMA must be aware of the state of readiness of other Federal, State, and local Agencies to provide information and guidance to these groups to improve readiness where required.

B. Elements of Readiness

A number of elements determine the readiness of an Agency to undertake emergency actions. These elements are embodied in most resource management and economic stabilization plans. Generally they would include:

- o Adequate authority - The Agency should have adequate authority to carry out needed preparedness steps and, prior to the time for action, must be provided with the authority to undertake operations.
- o Delegated Responsibility The Agency should be delegated a clear responsibility for assigned tasks.
- o Concept of Operations - The Agency should have an adequate concept of operations which spells out the objectives of the response and the general operations needed to ameliorate the emergency.
- o A system and measures to implement the concept of operations - The Agency should have a system, including organization, and SOPs and specific measures that are needed to implement the concepts of operations.
- o Staff and staffing plans - The Agency should have current staff assignments sufficient to maintain the current required level of readiness. It should also have staffing plans that can be implemented when a higher state of readiness is required.
- o Guidance and training - The Agency should have adequate guidance on concept of operations, systems, measures, and deployment steps. Present and potential staff should be provided with sufficient information and training to implement the deployment plans.
- o Other Resources - Other resources needed to implement the concept of operations should be on hand, or earmarked for use.

C. Readiness of Federal Agencies

A summary review for Federal Agencies based on these factors is given in the following paragraphs.

1. Adequacy of Authority and Responsibility (for planning and operations)

The two basic authorities exist at the Federal level, for the planning of emergency economic stabilization activities in peacetime. They are the National Security Act of 1947⁹ and Executive Order 11490. The first provides for advice to the President concerning programs "for the maintenance and stabilization of the civilian economy in time of war, and for the adjustment of such economy to war requirements and conditions".

Executive Order 11490, as amended, requires FEMA and the Federal financial agencies to cooperate "in the development of emergency preparedness measures involving emergency financial and credit measures, as well as price, rent, wage, and salary stabilization, and consumer rationing programs." Some Federal Agencies and Departments are specifically tasked to conduct E.S. planning (e.g., Treasury, DOL, FEMA, Federal Bank Supervisory Agencies).

The Federal Emergency Management Agency has primary responsibility for coordinating the E.S. planning activities of all Federal Agencies and for conducting planning for those aspects of the program not specifically assigned to other Agencies.

The Department of Treasury is tasked with the stabilization of the monetary, credit, and financial systems and related activities. The Federal financial agencies (Federal Reserve System, Comptroller of Currency, Federal Home Loan Bank Board, Farm Credit Administration, Federal Deposit Insurance Corporation, and National Credit Union Administration) are to "participate" with FEMA and the Department of Treasury and other Agencies in the development of E.S. policies, plans, programs, and regulations.

The Department of Labor has primary responsibility for developing E.S. plans and programs with respect to the stabilizing of salaries and wages (and benefits). The DOL, through its field offices, would deploy and administer the E.S. wage and salary program.

Other Federal Agencies cooperate on E.S. programs related to their emergency responsibilities for resource management. Thus, Department of Agriculture cooperates on food rationing, Department of Housing and Urban Affairs on rent control, Department of Energy on fuel rationing, etc.

Authority appears to be adequate with respect to agencies with specific responsibilities. These Agencies have produced in the past the required policies and plans in cooperation with FEMA and continue an active participation with FEMA in the updating of plans and policies.

The results for the agencies with less direct responsibility has been more uneven. The Agencies interpret differently the level of their participation required under the provisions of E.O. 11490. As a result, some Agencies are more active in providing substantive assistance than others.

Our conclusion is that existing Federal authority is generally adequate for peacetime E.S. planning, but more specific responsibilities should be delegated to some agencies to be consistent with their resource management responsibilities.

No Federal authority for implementing an economic stabilization program currently exists for mobilization conditions short of evacuation or attack. However, there is draft legislation, referred to as the Draft Defense Resources Act.¹ In the event of an unfolding emergency, it is expected that this act could be quickly submitted for approval by the Congress and the President. One option calls for establishing an Office of Emergency Resources (OER), and further provides for an Economic Stabilization Agency (ESA) to report to that Office. The ESA would be staffed by members of FEMA, members of other Federal agencies, and private sector leaders under the National Defense Executive Reservists (NDERs) program. The decision to impose all direct economic controls is reserved to the President of the United States. Such a decision will depend on the circumstances at such time as a national security emergency is declared.

During the period between submission of the draft act and its passage by Congress, it might prove desirable to be increasing the readiness for E.S. operations at the Federal, State, and local level. Delays in such increased readiness could be highly detrimental if the emergency escalates rapidly to an intense crisis. Therefore, means

should be established for undertaking actions to increase readiness at Federal, State, and local levels prior to the completion of legislative action. For the State and local levels, the Federal Government should consider underwriting part or all of added costs associated with such increased readiness activities.

In the event that nuclear war appeared imminent, the President's constitutional powers as Commander-in-Chief could be invoked. This would provide the needed authority for all required defensive actions including the issuance of the General Freeze Order (Appendix 1). The General Freeze Order would freeze all prices, wages, and salaries and rents at levels and dates specified in the order. The order also invokes consumer rationing of all items not specifically exempted in the order. The order further specifies the definitions, interim administration, recordkeeping, and applicability related to the order. It would also trigger the release of other emergency orders from the responsible Federal Agencies detailing the procedures to be used in implementing the general freeze.

The authority at all levels of government appears adequate for this condition of intense crisis, however, the feasible rate of implementation might be too slow to achieve acceptable results in the absence of prior improvements in readiness.

2. Concepts of Operations

Concepts of operations being used in planning at the Federal level (as well as State and local levels are presently based upon the concepts of operation specified in the 1965 Guidance.²⁻⁶ These concepts are based upon a more or less "steady state" environment. That is, the concepts are most appropriate where organizations and populations are reasonably well organized and integrated into the economy and are functioning in reasonably well understood roles. This assumption may not apply to the conditions in the first weeks or months after the beginning of an intense crisis or a nuclear attack. Under these circumstances, tens of millions of persons could be displaced from jobs and homes, and in the event of an attack, a significant part of the population and capital stock of the country could be lost. The resulting requirements and actions of the population and organizations can be predicted only in the most general terms. The E.S. controls for this situation would have to be made to apply to a very "dynamic" environment.

The "steady state" concept leads to a system that is primarily reactive to events. Wage and salary adjustments, rent and price changes, and most enforcement activity is initiated by the filing of petitions by the concerned parties with E.S. offices. Petitions are then investigated and necessary changes are made often after extensive adjudication and formal rulings. While the 1965 guidance does not exclude informal methods (e.g., jawboning to bring a retailer's prices into line) the emphasis is clearly on the more formal methods.

The "dynamic system" requires a more proactive approach to E.S. control. The E.S. organization must be sufficiently in touch with the evolving actions and conditions to be able to anticipate major E.S. impacts. For instance, staff of Wage and Salary stabilization organizations should be present at reception centers, hiring halls, and other places where large numbers of workers are being assigned to new (emergency) work. It would be important from the standpoint of maintaining worker productivity, to be aware of any gross inequities in working conditions such as discrimination against workers being transferred from large urban areas to production facilities in areas of lower risk. In another case, rent control staff should be quickly aware of major violations of rent control consequent to moving the evacuees into reception areas, and so forth.

The "dynamic system" implies more than the existence of field offices in the various areas. It requires a staff of sizes and levels of experience sufficient to implement an "outreach" program. In cases where essential activities are threatened with disruption, field staff must be empowered to make prompt interim decisions or rulings in the field. Formal investigations and adjudication should be delayed until a later period when the situation is under better control.

Consequently it appears that the concepts of operation for a more dynamic approach to economic stabilization needs to be developed and incorporated into Federal Agency planning. Due to the close relationship of E.S. measures to resource management measures, the concepts of E.S. management should be developed in parallel with resource management concepts.

In the case of money, credit, and banking, decisions on cash withdrawals and credit extensions will be made by officials of individual banks or financial institutions subject to guidance provided by the Federal Reserve Board, the Federal Reserve banks

or their alternates, by the Federal Home Loan Bank system, or by the National Credit Union Administration. The lines of succession for issuance and promulgation of financial guidance is well established and should be able to function under adverse conditions. It is based on delegations of authority to and from the Secretary of the Treasury. The methods of coordinating such guidance with a priority system and other resource management measures or goals remain to be specified. However, when an office of Economic Resources (OER) and a subordinate Economic Stabilization Agency (ESA) have been established, the necessary coordination would presumably be effected there. Prior to the emergence of a functioning OER, the hierarchy of supervision of financial institutions will be responsible for implementing financial policies either nationally or regionally in response to Federal or State resource management perceptions of national or local conditions and requirements. The mechanisms for affecting resource management coordination at national, regional, state, and local levels remain to be specified.

3. Systems and Procedures

The general guidance for systems and procedures are embodied in the draft Federal guidance documents produced by this project¹⁰⁻¹⁴ and in specific documents promulgated by the Agencies with assigned responsibilities (e.g., Department of Labor and Federal financial agencies). A summary of information provided is given in following paragraphs.

The new draft Federal guidance provides guidance on:

- o Objectives of controls
- o Organizational responsibilities
- o Operational conditions
- o Conditions of readiness
- o General policies
- o Instruments of control
- o Authority
- o Federal, State, and local organization
- o Concepts of operations
- o Steps for improving readiness

The Department of Labor guidance documents¹⁵ provide detailed rules and procedures for administration of wage and salary stabilization by the DOL national level and field offices. These include in addition to the general material in the above Federal guidance:

- o Staff and their responsibilities
- o Continuity of government actions
- o Response to civil defense alerts
- o Reports, records, and funding
- o Relationships to State and local government
- o Detailed information for making rulings
- o Petitions for adjustment
- o Investigations for compliance
- o Public information

The guidance information is updated periodically, and a new draft version is currently under review within the Department of Labor. The guidance provides adequate information for actions based on "steady state" environmental conditions.

The Federal financial agencies have provided added guidance in the form of Federal Emergency Banking Regulations,¹⁶ regional Federal Reserve Bank Circulars,¹⁷ and a series of booklets on emergency operations in banking.¹⁸⁻²⁰ These documents provide a useful basis for preparing for a strategic attack; however, some of the material (e.g., Agent Banks) requires updating. New guidance is also required to cover evacuation and national strategic emergencies short of strategic attack.

Under such non-war emergencies, the supervisory agencies governing the financial system would be intact and appropriate instructions could be readily promulgated. Little guidance has been given, however, regarding the special resources required or the limits, justification, and documentation required for applications for cash or credit.

In the absence of any fully functioning resource management system, the financial system would be primarily concerned with normal peacetime goals of keeping the growth of the money supply within target limits, and reserve ratios, rediscount rates, and foreign exchange transactions at levels deemed appropriate for extant economic conditions. Relevant decisions and actions would be taken as usual by the FRB.

Distortions created by mobilization could be factored into some FRB considerations. Emergency authority might be needed for some measures such as selective credit controls.

The Department of Agriculture provides detailed information on organization and operations for the production, processing, distribution, and storage of food products, but does not provide general guidance on consumer rationing.

4. Staffing, Education, and Training

Current staff in Federal Agencies devoted to the E.S. planning is minimal. Of the Agencies reviewed in this study only FEMA's Economic Resources Division has personnel committed on a full-time basis to this activity. The Department of Labor has one planner with a part-time assignment to this effort while HUD has no regularly assigned person on E.S. matters. The Federal financial agencies (not reviewed in this study) presumably have some effort directed towards emergency financial control. The Department of Agriculture has a sizable staff involved in resource management planning for emergency food supply but they have not directly addressed the problems of consumer rationing. Recently, DOA has made a commitment to assist in future planning for consumer rationing.

The cognizant agencies have some plans for staffing of an E.S. program during an emergency. FEMA plans outline the organization and staffing requirements for the national headquarters for various "conditions" of emergency (see Section I for definition of emergency conditions). However, the specific sources of the personnel are not given. The plans of the Department of Labor define the principal staff positions for wage and salary control at national headquarters and field offices. Core staff for the E.S. organization is expected to come from current DOL personnel. Additional staff support is expected from State offices of labor administration. Specific arrangements with States for this purpose apparently have not been made. The Department of Housing and Urban Development has no staffing plans to assist in rent control either at the national or local level.

Preparations for training and information activities are at a similarly low level. FEMA provides periodic lectures to Federal, State, local, and banking groups on emergency economic stabilization. Currently, the 1965 E.S. documents and the banking

circulars and booklets are the principal information available to the concerned groups. FEMA draft materials (e.g., NDER manual and the new draft E.S. guidance documents) will improve the level of information when issued. EMI offers periodic training sessions to Government and industry personnel on E.S. programs. None of the other Federal Agencies have undertaken E.S. training; however, both DOL and DOA have planning guides and other documents containing E.S. information which have been distributed to field offices. Both Agencies also plan to undertake training programs for field personnel.

D. Readiness of State and Local Agencies

The study did not review sufficient State and local agencies to provide the basis for a comprehensive evaluation of the various elements of readiness at the State and local levels in the U.S. However, it is our general impression from evidence from the current and earlier studies, that little has been done at the State level since the planning effort in response to the 1965 Federal guidance. At the local level, even less has been done.

Evaluations of the State of California and San Mateo county are provided in the next section.

E. Evaluations of Specific Agency Capabilities

The following section provides summary evaluations of the state of readiness for economic stabilization of the following agencies:

- o Department of Labor
- o Department of Housing and Urban Development
- o Department of Agriculture
- o State of California
- o San Mateo County (California)

EVALUATION OF AGENCY CAPABILITIES:
DEPARTMENT OF LABOR

1. Understanding of the responsibilities delegated to the Agency.

- o The Agency has a good understanding of planning requirements under E.O. 11490 and the national plan.
- o Questions exist regarding DOL role in E.S. for Conditions II and IIIA, less than a declared national emergency.
- o DOL doesn't foresee the need for any "increased readiness" conditions but would offer FEMA added planning support in such conditions.
- o DOL expects that under a general freeze DOL field offices would administer the wage and salary stabilization (WSS) program.

2. Understanding of concept of operations and specific functions that must be performed.

- o The WSS organization acts on petitions by outside parties (e.g., labor or management). Rulings may be made by authorized field offices or may be directed to regional and national WSS Boards for decision. Investigations are made and violaters are subject to judicial action.
- o DOL has not considered the full range of scenario conditions under which E.S. controls could be invoked.
- o DOL plans call for use of many existing standard procedures by field offices. Procedures required for enforcing WSS are viewed as being quite similar to procedures for administering current wage and salary regulations.
- o The possible impact of extreme scenario conditions on the effectiveness of standard procedures has not been considered.

- o Under extreme conditions (evacuation or early post attack) individual petitions might have to be set aside in favor of blanket regulations and rulings. The actions might include a general moratoria on wage adjustments.
- o DOL and AFL-CIO prefer the use of moratoria rather than "mandatory" solutions to labor disputes. The Federal Government already has the Taft-Hartley and RR Labor Acts which allow delays of 60-80 days.
- o DOL correctly assumes that resource management will be the principal control mechanism under extreme conditions. However, DOL has not examined E.S. role in maintaining confidence in the economic system.

3. Knowledge of required authority for implementing functions.

- o All plans for action are based on the declaration of a national emergency by the President invoking the general freeze following authorization from Congress.
- o DOL field offices have guidance documents from DOL headquarters giving detailed procedures and regulations to be used when authorized.

4. Availability of specific criteria for initiating or modifying measures.

- o Wage and salary stabilization (WSS) would be initiated on the announcement of the general freeze.
- o Specific actions would be initiated on basis of petitions by labor, management, unions, etc. No criteria are given in the guidance for action initiated by the DOL field staff.
- o Phased implementation of WSS measures are not anticipated. However, phasing of states of readiness and staffing levels are included in plans.
- o Plans include detailed criteria and formulas for WSS adjustments.

5. Knowledge of information requirements and sources.

- o DOL has a well developed information system including labor statistics, cost of living, and other data on the peacetime situation.
- o In extreme crisis, information on the situation would come from the complaints by other parties and investigations by the DOL field office staff.
- o There are no plans for a proactive effort to gather information on impending problems prior to the notifications of DOL field offices by other parties.

6. Knowledge of coordination requirements.

- o DOL has established contacts with labor unions and state labor agencies.
- o DOL has coordinated with FEMA on E.S. planning.
- o Plans call for coordination at the regional level in a developing emergency.
- o Detailed rules cover procedures for contact with State agencies and groups. Apparently little coordination has been done in peacetime.

7. Frequency of plan review and other studies.

- o DOL is just completing an update of WSS guidance for DOL agencies.
- o DOL has made regular revisions to the WSS guidance document since 1965.

8. Current staff devoting effort to E.S. planning and preparedness.

- o Currently one person at Federal level (20% time commitment) working on revision of the E.S. guidance.

- o Added staff and more detailed planning are not considered necessary due to similarities of WSS to current procedures.

9. Staff assigned and organizational stability.

- o Plan calls for the assignment (as additional duty) of 25 persons for peacetime cadre with responsibility for E.S. readiness.
- o Plans contain duties of regional leadership including lines of succession.

10. Adequacy of personnel reservoir for full staffing.

- o Personnel for initial staffing (headquarters and field offices) could be done by reassignment of current personnel in DOL.
- o Other staff would include NDER and State personnel.
- o Others would have to be added to meet increasing demand caused by WSS. No special consideration has been given to requirements of extreme emergency.

11. Personnel information and training activities.

- o The E.S. guidance documents are provided to DOL field offices.
- o No training is provided nor is there a perceived need for training.

**EVALUATION OF AGENCY CAPABILITIES:
DEPARTMENT OF AGRICULTURE**

1. Understanding of responsibilities delegated to Agency.

- o State and local government (S&L) have the responsibility for administering consumer food rationing and distribution and controlling food at retail level.
- o DOA understands its responsibility under E.O. 11490 for emergency agriculture and food controls down through the wholesale level (and some retail chain store storage facilities and distribution capabilities).
- o DOA supports S&Ls by providing advice and guidance on food policy and procedures.
- o DOA is ready to assist the Federal, State and local levels on consumer rationing if requested.

2. Understanding of concept of operations and specific functions.

- o DOA develops and promulgates policies, concepts, and procedures for the emergency food system down through the wholesale level.
- o DOA provides advisory guidance and sample plans for S&Ls.
- o DOA has not considered detailed mechanisms of consumer rationing (rationing evidence, etc.).
- o Consumers are referred to S&L jurisdictions for ration procedures and evidence.

3. Knowledge of required authority for implementing functions.

- o Planning is based on currently existing authority (E.O. 11490).
- o Emergency implementation would require: (1) declaration of national emergency, (2) attack on U.S., or (3) Congressional action.

4. Availability of specific criteria for initiation or modifying measures.

- o After general authorization, DOA field offices would take the initiative to contact S&L level.
- o DOA also responds to requests from S&Ls and petitions, appeals, and reports from food suppliers.
- o DOA headquarters will issue Defense Food Orders (DFO) controlling food system through the wholesale level.
- o DOA field offices may issue DFOs if the national office is unable to act. Provision exists for increased readiness within DOA in event of mobilization.

5. Knowledge of information requirements and sources.

- o DOA maintains list of food facilities and organizations down through wholesale level.
- o DOA maintains detailed lists of information sources during emergency.
- o Reporting requirements, sources, and forms have been developed for pre-emergency and post-attack reporting.

6. Knowledge of coordination requirements.

- o Contact points have been established with S&Ls' agencies.
- o Coordination requirements with S&Ls have been specified in DOA planning manuals, although actual coordination is limited in peacetime.
- o DOA plans call for "Memoranda of understanding" between DOA and individual States on respective functions during emergency.

7. Frequency of plan review and other studies.

- o Frequent updates and additions are made to plans (handbooks have been produced in 1982 and 1984).
- o A number of publications have been developed for field use.

8. Current staff devoting time to E.S. planning and preparedness.

- o DOA has an active staff working on emergency planning. This staff also participates in DOA and government-wide emergency planning groups.
- o No staff is working on consumer rationing at national or field level.

9. Staff assigned emergency duties for E.S. activities.

- o Handbooks specify assignments of field staff to DOA emergency councils at the county and state levels.
- o Specific duties have been spelled out for DOA lead personnel in the field.
- o No specific staff in the field have as yet been named to perform peacetime readiness efforts.

10. Adequacy of personnel reservoir for full staffing.

- o Current DOA staff would probably be adequate for current assigned emergency duties.
- o Current staff would be inadequate for administering rationing but could provide support in an advisory role.

11. Personnel information and training activities.

- o Emergency information handbooks have been distributed to DOA.
- o Training courses for field personnel are under consideration.
- o Sample plans for food system control have been developed for States.

**EVALUATIONS OF AGENCY CAPABILITIES:
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

1. Understanding of responsibilities delegated to the Agency.

- o HUD interprets its role under E.O. 11490 as being to provide periodic advisory services to FEMA.
- o In emergency, HUD believes that S&L Agencies would have prime responsibility for rent control.
- o HUD foresees possible role of providing overall guidance on rent controls (e.g., formulas for rent fixing) but no role in management, enforcement, adjudication, etc.

2. Understanding of concept of operations and specific functions to be performed.

- o HUD understands that mobilization might cause rent controls to be implemented prior to strategic attack.
- o HUD emergency planning does not include consideration of evacuation.
- o HUD would basically respond to requests from cognizant Federal Agencies (FEMA, ESA, etc.) for advice on formulas and other guidance for rent control.
- o HUD is not concerned with the detailed mechanisms for applying rent controls.
- o The emergency planning staff at HUD are unaware of the detailed planning by FEMA on housing in evacuation areas.
- o The HUD emergency planning staff is concerned about some of the resource

3. Knowledge of required authority for implementation of functions.

- o HUD recognizes that the authority for implementing direct controls would be based upon declaration of a national emergency by the President.
- o HUD also recognizes that local and regional problems of housing and rents might occur prior to national emergency (i.e., during mobilization); however, such a situation is viewed as an S&L problem. HUD might be providing supporting services to S&Ls in this period (e.g., guidance for establishing fair rental prices, provision of HUD owned temporary housing, etc.).

4. Availability of specified criteria for initiating or modifying measures.

- o HUD is not concerned with specific mechanisms for application of controls (complaints, etc.) hence associated criteria have not been developed. HUD will respond to requests from FEMA or S&L for guidance and assistance.

5. Knowledge of information sources and requirements.

- o The primary source of rent data are field reports on the rental market. These reports generated and retained by local HUD field offices.
- o Data held by Federal and field offices only represents a small portion of the activity in the housing industry and even less on housing stock.
- o If requested, HUD could make market surveys to help determine fair rents.
- o HUD has no current knowledge or other sources of information on space that might be converted to housing (e.g., host area survey, etc.).

6. Knowledge of coordination requirements.

- o No coordination on E.S. matters has been undertaken except for occasional meetings with FEMA.

- o Local HUD offices have not been involved in E.S. planning nor do they plan to become involved during an emergency.

- o A HUD handbook on resource management for emergencies has been published.

7. Frequency of plan review and other E.S. studies.

- o No E.S. planning has been done or is any planning anticipated except for review of FEMA efforts.

- o A regular review is made of other emergency planning documents (i.e., resource management).

8. Current staff devoted to E.S. planning.

- o No HUD staff is assigned to E.S. planning nor is there any plans to assign personnel to these duties.

- o Neither the national headquarters nor the field offices have suitable staff to undertake E.S. planning.

9. Staff assigned

- o Neither staff nor slots have been assigned for E.S. activities in an emergency.

10. Adequacy of personnel reservoir for full implementation.

- o There is inadequate staff at the Federal level and field offices for implementing rent control functions.

- o There is a staff of 8 to 10,000 persons in field offices throughout the U.S. for administering Federal Housing programs. However, they have not qualified to undertake rent control planning or operations.

11. Personnel information and training.

- o No E.S. information has been distributed to the field. Use of current staff would require complete training in the field.

**EVALUATION OF AGENCY CAPABILITIES:
STATE OF CALIFORNIA**

1. Understanding of responsibilities of the Agency.

- o The State understands its responsibility following nuclear attack to implement and administer some direct controls (prices, rents, and rationing). The State recognizes its supporting role on other E.S. controls (wages, financial).
- o State responsibilities under conditions between peace and war are not clearly defined. The State's role in economic stabilization during population evacuation has not been considered.

2. Understanding of concept of operations and specific functions.

- o The Federal 1965 E.S. guidance for prices, rents, and rationing has been integrated into the California Emergency Plan.
- o The California E.S. plan includes the general freeze order to be issued by the State after an attack.
- o No specific consideration has been given to how E.S. controls would operate in conditions short of attack (e.g., crisis).

3. Knowledge of required authority to implement emergency actions.

- o The California Emergency Plan provides that a state of war emergency would exist with or without such a proclamation by the Governor if:
 - (1) The State or nation is subject to enemy attack, or
 - (2) upon receipt by the State of a warning from the Federal Government that such an enemy attack is probable or imminent.

- o Governor would cooperate in putting into effect rules and regulations promulgated by the Federal Government.
- o All orders and regulations made by the Governor in advance of a state-of-war emergency must be approved by the State Emergency Council (consisting of representatives State and local Government).

4. Availability of specific criteria for initiating measures or modifying measures.

- o After the declaration of a state-of-war emergency, the State would take initiative to implement E.S. controls and organization for rents, prices, and rationing and would coordinate with Federal Agencies on wages and salaries, and on financial controls.
- o No plan exists to initiate efforts prior to state-of-war emergency or to participate in Federal E.S. efforts prior to such an emergency.

5. Information requirements and sources.

- o The State would look to Federal agencies for guidance relating to E.S. controls.
- o In an emergency, information on rents, wage and salaries, and rationing would be developed by S&L field offices and boards.
- o There is no current activity at the S&L level to plan for development of needed operational information.

6. Knowledge of coordination requirements.

- o The State recognizes the roles of Federal agencies with respect to E.S. controls.

- o Periodic attempts have been made by the State to hold coordination meetings with Federal Agency representative with little substantive results.
- o Local governments have generally been unresponsive to State efforts to activate interest in E.S. planning.

7. Frequency of plan review.

- o No substantial review of the E.S. part of the California Emergency Plan has been undertaken since publication of the Plan in 1965.
- o Draft Guidance for E.S. controls and organizational tables have been developed by the State Office of Emergency Services but have not been disseminated or approved.

8. Current staff devoted to E.S. planning and preparedness.

- o No staff is currently engaged in E.S. planning.

9. Staff assigned duties for E.S. operations.

- o The State Plan creates new offices, titles and functions, and delegates authority.
- o The Plan calls for realigning of existing State agencies for E.S. operations.
- o The Plan includes a manning table giving assignments (type and number of positions, etc.). This table was recently updated but not disseminated.

10. Adequacy of personnel reservoir for full staffing.

- o The staff of other State Agencies would probably be adequate for initiating E.S. controls at the State level.

- o The staffing requirements at local level has not been determined but existing local Government staff would be inadequate. Detailed plans for recruiting generally do not exist.

11. Personnel training and information activities.

- o No training or information activities have been undertaken in the recent past.

EVALUATION OF AGENCY CAPABILITIES:
SAN MATEO COUNTY

1. Understanding the Agency responsibilities.

- o The county planners are aware of responsibilities as given in the Federal 1965 E.S. guidance.
- o Their role in E.S. efforts prior to an attack is not clearly defined.

2. Understanding of concept of operations and specific functions.

- o There has been no recent consideration of E.S. duties at the county or city level.

3. Knowledge of the authority required to implement emergency actions.

- o The county planners believe that no action could or should be taken at the county level to initiate E.S. operations without directives from the State.
- o As a practical matter, the Board of Supervisors would probably not take action on its own.
- o Independent action by counties or cities would create chaos with different rules in contiguous jurisdictions.

4. Availability of specific criteria for initiation of modification of actions.

- o Action will be initiated on declaration of state of emergency by the Governor and promulgation of the general freeze order.

- o Increased readiness actions could be taken with authority of Board of Supervisors but it is unlikely that this approach would be taken without some directive from the Governor.

5. Information sources and requirements.

- o County planners are aware of the 1965 E.S. guidance and the guidance in the State plan.

6. Knowledge of coordination requirements.

- o Local planners are aware of the need for uniform actions by the States, Counties, and localities.
- o They have no direct knowledge of coordination requirements with Federal Agencies.

7. Frequency of plan review.

- o There is no E.S. plan at the county level.

8. Current staff devoted to E.S. planning and procedures.

- o There are no staff concerned with E.S. planning in this or any other county or other local jurisdiction in California.

9. Staff assigned duties of E.S. operations.

- o Emergency positions for E.S. and R.M. coordinators have been specified in County plan.

10. Adequacy of personnel reservoir for full staffing.

- o In an emergency, the lead positions would be filled by regular personnel of the San Mateo Area Disaster Office.
- o The Board of Supervisors or the Governor could also appoint people from the private sector to fill executive posts, boards, etc.

11. Personnel training and information activities.

- o No training or information activities have been undertaken or planned.
- o The county believes that a good guidance and training package from the Federal Government would be highly desirable to allow an increase in readiness at the local level.

Section III

POTENTIAL PSYCHOLOGICAL EFFECTS OF NATIONAL EMERGENCIES AND ECONOMIC STABILIZATION MEASURES

A. Review of the Literature World War II

Prices between August 1939 and January 1940, prior to the entry of the United States in World War II, were relatively stable. However, immediately prior to World War II and especially in the early years of that war, there was a great deal of buying in anticipation of price increases as had happened in World War I. In January 1942, a month after the United States entered the war, an emergency price control act was passed. It established price ceilings based on prices that were prevailing between October 1 and 15, 1941. As wages were excluded and established ceiling prices on farm commodities were relatively high, businessmen felt that the Price Administration was not serving their interests. Inflation was not halted, and, in April of 1942, prices were frozen at the March 1942 level. This action served to dissuade the public from its anticipatory buying and lessened inflationary tensions. Generally, the public accepted price controls, and public opinion provided a strong restraint to profiteering in time of total war.

Farm product prices and wages and salaries went practically uncontrolled. Both workers and farmers fought to avoid controls, claiming they were being discriminated against. In October 1942, Congress enacted the Stabilization Act of 1942 to stabilize wages and salaries and to control agricultural prices. However, it was not until the President's "Hold-the-Line" Executive Order of April 1943 that wages and salaries were finally brought under control. In addition to general prices being frozen in April 1943, ceiling prices were established on rents in hundreds of defense areas.

Rationing of essential and scarce commodities was instituted in piecemeal fashion. Rationing was considered to be successful in its early days, with meat, canned goods, and fuel included in the program. Although there was a large diversion of meat into the black market, the major objective of limiting the diversion of grain was accomplished. Later, the authorities felt that increased rations would be popular with the American

public even though there were not enough supplies to meet the demand. When that happened, the popular basis for rationing disappeared. By 1946, when price controls were lifted, their effectiveness had been substantially impaired.

Korean War

At the time of the invasion of South Korea in June 1950, prices in the United States were already at a "recovery-related" high. The invasion by North Korea set off a spurt of consumer and business buying in the United States, which subsided for a while until news of the massive Chinese intervention in late November 1950 triggered another wave of buying. Both labor and businessmen were asking for controls, but none were imposed at the time, although Congress had approved standby authority to control prices and wages in Title IV of the Defense Production Act of September 1950. Thus for months, consumers accelerated purchase of goods and services and businessmen built up inventories in anticipation of shortages and price increases. It was an inflation built upon psychological factors not economic conditions.

In December, the President declared a national emergency, and the Government announced its intention to inaugurate price and wage controls. Stop gap measures and voluntary restraints were requested. The highest delivery levels for sellers was in the five-week period that ended with the controls. The relationship among prices and between prices and wages was destroyed due to the sellers' responses to rumors, statements, entreaties, and forecasts that had come out of Washington in the previous five months. Sellers who heeded the Government's entreaties and exercised restraint in pricing were penalized with low ceilings, while others profited.

In January 1951, ceilings were established on most commodity prices, with specified farm products excluded. There was no rollback; ceilings were set at those existing the previous month or so--close to their peak. At the same time, an order was issued to restrain wages. There was a gradual softening of the price level, and from the spring of 1951 to the end of the year, the wholesale price index, for example, remained fairly stable.

Nixon's Peacetime Freeze

When Congress passed the Economic Stabilization Act in August of 1970 to provide the President standby authority to impose price, rent, wage and salary controls, the inflation rate in the United States was winding down from its peak in 1969. However, output and employment were expanding and there were fears of inflation. By August 1971, when President Nixon imposed a 90-day freeze on prices, rents, wages and salaries, the economic recovery was in its ninth month.

Business, unions, and the general public had reportedly been in favor of some kind of control program, but President Nixon and others in the government denied that they would take such action. Thus, when Nixon announced his New Economic Policy including a freeze, the public was taken by surprise. The freeze was imposed immediately, without prior planning and organization. Such action precluded anticipatory price and wage increases as had occurred in the Korean War. The number of requests for exemptions was minimal,²¹ and the general public showed little tolerance for violators. Investigation of complaints showed almost two-thirds of businesses were without violations. Of those with violations, most complied voluntarily. Spot checks by the IRS showed over 90 percent compliance; few violators reached the stage where they had to be referred to higher authorities for possible court action.

Prior to the imposition of Phase II, which was announced by President Nixon October 7, 1971, he and his Cost of Living Council consulted with major groups that had an interest in the program--business, labor, farmers, consumers, Congress, State, and local governments. Representatives of these groups generally agreed that the anti-inflationary effort should continue, although they disagreed on the methods. Phase II, which began November 14, allowed for moderate increases in prices, rents, and wages and salaries, and some segments of the economy were entirely decontrolled.

Public opinion polls taken a year or so after imposition of the new controls indicated that the percentage of people who feared inflation had decreased from 70 percent to 35 percent. Although wage and price controls had led to industrial disputes, time lost through strikes as a proportion of time worked in Phase II was at its lowest level in almost ten years.

Early in 1973 there was a transition from Phase II to Phase III, with a change to greater stringency. Excess capacity was declining, and there was a sharp acceleration in the rate of inflation. Although, in the last quarter of 1972, only about 25 percent of the general public was in favor of a return to a price freeze, by February 1973, the percentage had increased to 43 percent. In the first five months of 1973, there was a high rate of inflation, and, by the time that Phase III was nearing its end, pressure was put on Congress and the administration to take even stronger actions to control inflation.

On June 13, the President announced a second temporary freeze on prices, which was to be discontinued as soon as a new set of Phase IV controls was in place.

B. Possible Psychological Effects Attendant to National Emergency and E.S. Controls

Historical experience suggests that the psychological effects of E.S. controls should be taken in the context of the prevailing conditions of the national emergency. The intensity of conditions of the national emergency would be as great or greater than any emergency in the past. The escalating crisis would involve general perceptions of likelihood of a major conflict or actual conflict that threatens to grow to strategic nuclear war. Population evacuation could include the perception of imminent nuclear war and spontaneous or planned movement of a large segment of the population out of the major urban areas. The post-attack situation could include damage levels beyond anything experienced in the United States. Under these conditions, E.S. controls could not be expected to ameliorate all the psychological effects. The role of E.S. would be to sustain public confidence in the economic system and to support the direct management (resource management) of the economy.

In these conditions, the perceived economic distortions by business and the population would be so great that the use of strong E.S. controls would generally be accepted. The general objective would be to avoid the problems of economic distortion ranging from increased prices and shortages to threats of collapse of the economic system. A summary of the major problems in the absence of controls is given in Table III-1. E.S. measures together with resource management measures could ameliorate the fears but problems would still exist that could reduce or eliminate the effectiveness of the E.S. program unless resolved.

Table III-1

PSYCHOLOGICAL EFFECTS OF CRISIS AND E.S. CONTROLS

Problems of National Emergency	Issues with E.S. Controls
(Escalating Crisis Prior to Evacuation or Attack)	
<ul style="list-style-type: none"> o Excessive buying by population and business. o Increasing prices (price posturing). o Hoarding and speculation. o Absenteeism and reduced labor productivity o Spot shortages of essential consumer goods at the retail level. 	<ul style="list-style-type: none"> o Perceived equity in distribution of essential goods. o Stabilization of prices reduces unnecessary buying, hoarding, and speculation. o Controlling black market. o Compliance with price regulations. o Stabilizing production and inventory.
(Period of Extreme Crisis - Evacuation)	
<ul style="list-style-type: none"> o Shortages of essentials for evacuees and residents in host areas. o Unacceptable shortages of cash and breakdown of checking and credit systems. o Inability of population to buy essentials (dissension and productivity losses). o High level of unemployment in reception areas (impact on wage and salary rates. o Production, inventory, and resupply problems. o Hoarding and speculation (unrestrained). 	<ul style="list-style-type: none"> o Adequate and equitable distribution of essentials. o Cash, checking, and credit adequate for minimal business needs. o General acceptance of rationing price, wage and and salary controls. o Widespread black market activities o Heavy demands on E.S. organization to moderate inequities. o Production problems (labor incentives, production, resupply, etc.).
(Early Post-Attack Period)	
<ul style="list-style-type: none"> o Fear of possible breakdown of economic and financial systems. o Loss of incentives to work for long-term economic goals. o Gross inequities in distribution of essential consumer products. o Widespread price gauging and hoarding. o Loss of confidence in viability of the country and solvency of business o Debilitating uncertainties as to asset ownerships. 	<ul style="list-style-type: none"> o General acceptance of E.S. controls by population. o Continued belief in economic and final systems. o Widespread black market. o Distorted production, resupply, and inventories o Individuals concern over near-term problems. o Rationing of investment, production, and asset ownership.

If the pre-attack period is sufficiently long (period of months) there may be a growing recognition of the weaknesses and inequities in the E.S. program. It would appear that this knowledge would be countered by the fears of increasing severity of the crisis. Black market operations would be inevitable where shortages or controls maintain the supply of goods below the demand. However, major efforts should be directed to protect against gross and highly visible inequities that would affect popular support for the program.

A less visible but very significant problem would be protective psychological reactions of business that would affect the type and level of production and the levels of inventories. Controls on prices of some goods that reduce or limit profits could cause a shift in production mixes towards goods offering a higher profit level. Business might also try to increase inventories of scarce or potentially scarce inputs to production in anticipation of increased controls or a worsening strategic situation. Generally, these tendencies would be limited by imposition of controls, such as priorities and allocation systems.

In the event of a nationwide evacuation of urban areas, conditions would be so extreme and the period sufficiently short (one week to one month) that the principal approach to control would be resource management. E.S. controls would also make important contributions to overall stability and would be generally acceptable by business and the population. E.S. controls' principal objectives in this period would be to ameliorate possible psychological effects such as the loss of confidence in the viability of the economic system and future value of current labor. Widespread problems would still exist such as black market activities and hoarding. The E.S. organization would be severely taxed to control major inequities resulting from the disruption of the economy and to control disruptions of remaining production. An important problem would be to maintain or increase incentives of business and labor to increase production of essential goods and services in host areas.

The early post-attack period will also induce psychological effects in the population and business community that go well beyond the realm of economic stabilization. However, E.S. controls would be essential in helping to offset some of the most debilitating psychological effects. Unless such fears about the viability of the economic system can be ameliorated by E.S. measures, they could have a debilitating effect on popular support of recovery efforts. With the widespread loss of assets, the

business and the population would also be very uncertain as to their future and there would be a tendency for them to think in terms of the short term goals of individual survival. By maintaining confidence, the E.S. program could provide added incentives for popular support of the recovery efforts.

Convincing people that efforts over and above those required for immediate survival would be rewarded by tangible assets in the not too distant future could be a major task. Fears might persist that current savings might lose all value by devastating inflation and economic collapse. Plans should be made and assurances given to persuade individuals that accrued savings (whether mandatory or voluntary) would earn interest at ample rates and become convertible to tangible assets in due course. As an added inducement to work and save, some scheme might be developed for assigning first priority on purchases of housing and appliances to retained savings, the relative priority depending on demand and accrued interest (reflecting the length of the period of deferred expenditure). This and similar devices to demonstrate long-term values would greatly aid in fostering a future orderly value system.

Loss equalization policies if promulgated with simple straightforward procedural instructions could also improve morale by reducing uncertainty. Procedures could be simplified by covering one step at a time starting with methods for registering and authenticating the loss. Documented losses could be evaluated at pre-crisis monetary value and converted to segregated blocked- interest accruing savings accounts. Ultimately these accounts could be treated as other savings but only convertible to regular accounts at time and discounts to be worked out later. Such accounts credited to businesses might be accorded interim status to some degree as collateral for post-attack loans or loan guarantees.

Section IV

THE MIX AND TIME PHASING OF E.S. CONTROLS IN A NATIONAL SECURITY EMERGENCY

A. Distinctions Between the Pre-Crisis and Crisis Periods

During a period of increasing tension that might precede a national security emergency, the U.S. policy would be to maintain the maximum feasible functioning of the market economy. Thus, in this period, E.S. controls would be delayed as long as possible and then would be applied on a very selective basis.

During a period of a national security emergency, featuring an evacuation and/or a strategic attack, the distortion in the economy would be sufficiently great that all types of R.M. and E.S. measures would have to be introduced promptly. The question of mix of controls during such a period, therefore, relates primarily to coverage and to the severity of the constraints imposed.

Pre-crisis and crisis approaches to E.S. controls differ not only in coverage and severity of constraints but more fundamentally in terms of their role in the functioning of the economic system. It is therefore instructive to compare the rationale and approaches of the two periods and some of the issues driving the use of controls in each period.

B. Rationale and Measures for E.S. in Pre-Crisis Period

The E.S. program used in this period could include the range of E.S. measures historically used to stabilize the economy. Table 3B provides a brief summary of these measures together with their purpose and limitations.

In considering the pre-crisis period, wage controls are often linked to price controls to prevent a reduction in output because of profit erosion. Even though shortages of materials or other impediments limit output, wage controls may be also needed to avoid withdrawal of the marginal and even the dominant firms from an

Table IV-1

MEASURES RELEVANT TO ECONOMIC STABILIZATION

<u>Measure</u>	<u>Purpose</u>	<u>Limitations/Comment</u>
Fiscal	To control exchange rates, tax burden, budget deficit, aggregate demand.	Tax increases, consumption taxes, expedited withholdings, banking savings all relevant.
Banking	To control growth of money supply, reserve and rediscount rates and market U.S. securities.	May affect aggregate demand even more slowly in crisis.
General Freeze	To prevent or arrest runaway inflation.	Shock effect arrests inflation temporarily, lowers economic efficiency if prolonged, requires some tailoring of exemptions, etc.
Wage Control	To avoid wage-price spiral, limit aggregate demand.	Should accommodate labor market practices, preserve profit and productivity incentives, and avoid work stoppages.
Price Control	To reduce upward pressures on wages and other costs.	Requires continual adjustment to provide incentives for top priority output; correlation of formulas with tiers of firms or industries is desirable.
Rent Control	To reduce upward pressures on wages, and avoid some impediments to labor mobility.	Should keep shelter costs in line with wages and prices but area, quality, and other differentials appropriate.
Subsidies	To provide incentives for activity unrewarding at administered prices.	Can be used to support resource management and also wage and price controls.
Consumer Rationing	To distribute essentials in short supply equitably, avoid wasteful queuing and black markets.	Burdensome for general use but essential for many consumer items.
Cash Rationing	To distribute limited cash equitably, avoid overhang of large cash balances outstanding.	Can lessen attractiveness of black markets.
Credit Restrictions	To allocate funds to most essential, top priority uses.	Needed to implement resource management priorities.

industry. The case for more general wage controls is based on the need to limit aggregate consumer demand to relieve inflationary pressures. For this objective a comprehensive system of wage controls is appropriate. Concerns for equity and for the political power of unions and labor require that any broad system of wage controls be accompanied by price controls on consumer goods (especially nondurables) and by rent control. Where the combination of wage and price controls leave essential consumer goods in short supply and where moderate price increases or subsidies are unlikely to draw forth increases in supply sufficient to relieve the shortage, rationing becomes imperative.

Many of the available measures contribute positively (or negatively) to common objectives. These need not be considered as substitutes for one another but are best used in concert to limit the demands to be placed on each. For example, increased withholding taxes; consumption taxes such as excise, sales, or value added taxes (VATs); and mandatory savings can reduce immediate consumer purchasing power and complement wage controls. Aggressive contract negotiation and excess profits renegotiations can supplement price controls for defense or other government procurement. Subsidies, benefits, or other perquisites, low interest loans, or loan guarantees can supplement wage and price or profit incentives in securing expanded production of high priority items particularly for those needed to meet transient or short run requirements. Moreover, price and wage disincentives could reduce output of lower priority consumer goods and encourage diversion of plant and operations to military or allied high priority items thereby reducing the need for recourse to production limitation orders and tight raw material allocations.

Although practicality and general acceptance place severe limitations on the acceptable variability in formulas, coverage, and exemptions, there must be room for enough flexibility to track evolving conditions and priorities particularly in a period of increasing tension (Condition II, IIA, and IIB). Although the institutional arrangements of business as usual should be an ideal to be kept in mind, the increasing national security requirements would force many compromises between local and national priorities, or temporary and longer run problems. The system of controls must not impede implementing measures reflecting such policy compromises.

Historically, certain problems have recurred in past efforts to implement stabilization programs. The large and somewhat variable number of enterprises in

farming, construction, and nonfinancial services has usually led to the exemption of such activities from price and wage controls. Controls on wages by craft or occupation or as part of a general freeze, controls on the prices of agricultural inputs and on the retail prices of processed foods and other finished goods have been expected to hold the line on costs and prices of farm output. Upward movement of interest rates and costs of agricultural chemicals and machinery have usually led to increases in farm prices and to profit squeezes on farmers and food processors alike, and resulted in upward adjustments of ceiling prices. Moreover, increased demand and residual inflation have also contributed to increased costs of construction, medical care, and other professional services.

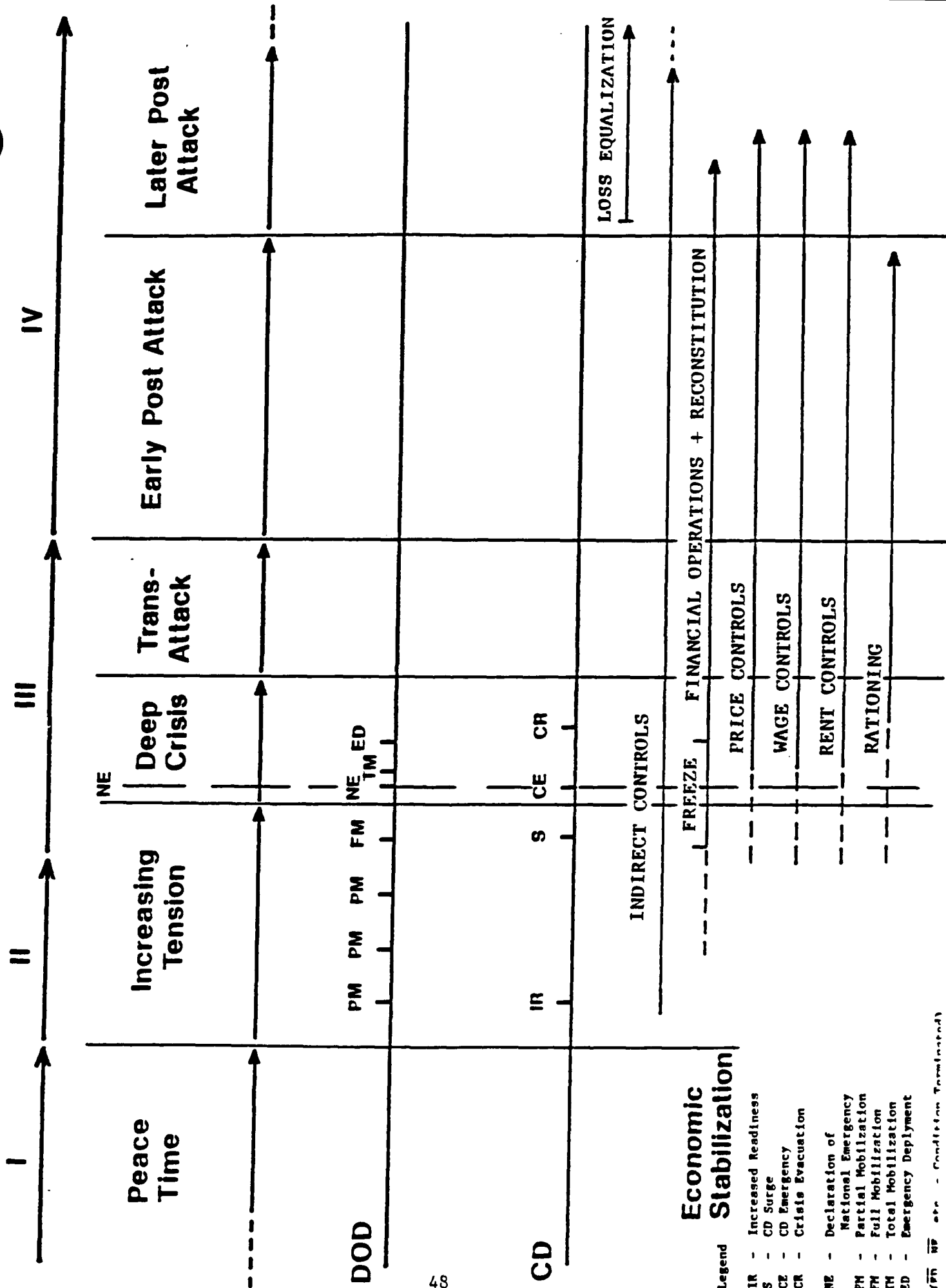
If controls could be applied to the large agricultural, medical, and construction corporations, competition might suffice to keep prices and wages in line throughout the usually exempt industries. Any sharp increase in failure rates among marginal enterprises, however, could have adverse political, social, and economic repercussions and lead to pressure on the controlled tier of dominant firms and on the price boards for upward price adjustments. In any case, some controls could result in an orderly limited rate of inflation that would be preferable to erratic or chaotic price rises.

B. Transition of E.S. Controls to Crisis and Post-Attack Periods

The requirements for E.S. controls increase greatly as the strategic conditions move toward an intense (deep) crisis and strategic attack. While an actual national emergency could take many different paths, it is instructive to begin consideration of the effects of crisis escalation on the type and timing of E.S. controls in terms of a standardized base case scenario. Variations from this base case can then be discussed. Figure IV-1 shows the time line of events for military and civil defense from an escalating emergency resulting in an attack and post-attack periods.

DOD mobilization plans call for incremental increases in readiness as the intensity of the emergency increases, starting with a series of partial mobilization steps (PM) and full mobilization (FM) of planned capabilities. At or shortly after a Presidential declaration of a national emergency (NE), total mobilization (TM) would be undertaken of the nation's resources for war support. The perception of the imminence of a strategic attack would trigger the emergency deployment of military forces (ED).

Figure 1



Civil defense (including economic stabilization) would be going through a parallel series of increases in readiness. Sometime during the period of DOD partial mobilizations, the civil defense organizations would begin increased readiness efforts (review of plans, identification of staff, training, etc.). Under conditions causing full military mobilization, it is expected that CD operations would enter into a "surge" (S) period, where pre-planned programs would be installed at the most rapid feasible rate (e.g., expansion of staff, expedient shelters, economic/industrial preparations, etc.). The declaration of a national emergency would result in a civil defense emergency (CE) putting all civil defense personnel on an emergency footing and triggering the promulgation of emergency regulations to the population at large, possibly followed by population evacuation (CR).

Such strategic conditions would also bring about the evolution of E.S. controls from peacetime indirect economic measures, through selective E.S. and resource management (RM) controls to a general freeze including rationing. It is the policy of the Government to allow free market operations to the extent possible during a mobilization period. Initial controls would likely be indirect measures mentioned previously such as monetary policies, credit controls, and selective priorities and allocations controls. For conditions short of an actual attack, the timing of the general freeze would be the decision for the President based upon his evaluation of political, economic, and strategic information. Among the considerations would be the proportion of industrial capacity needed for war production (and consequent future shortages of consumer goods) and the anticipatory actions of consumers and business. In the base case scenario, the anticipatory actions would likely occur prior to an actual impact of war production on the consumer economy. With deep crisis and thereafter through the early post-attack period, the general freeze together with comprehensive consumer rationing would be expected to remain in place with minimal modifications.

A significant variation from the base case scenario would be a condition where the mobilization covered a longer period (e.g., 1 to 2 years) before escalating into a deep crisis and an attack. In this condition, the general freeze might be imposed earlier and might have been gradually replaced by tailored controls. The onset of the deep crisis would then result in the re-imposition of the general freeze based on the then-current prices, wages and salaries, and rents. Any selective rationing program would be replaced by a comprehensive rationing program.

A second significant variation on the base case would result from the resolution of the crisis short of a strategic attack. Figure IV-2 shows the buildup of intensity occurring as in the base case; however, the deep crisis is followed by a period of decreasing tension which eventually results in a return to peacetime conditions. The decrease in tension would presumably be accompanied by a reduction in the level of readiness or the alert conditions of civil and military organizations. However, efforts to improve basic preparedness for a possible future crisis might continue on a less urgent basis. Economic dislocation caused by such a crisis would be significant, so that E.S. programs might be required for many months after resolution of the crisis. The comprehensive controls might be replaced by selective controls and would be accompanied by various measures to ameliorate the losses to the public and private sectors, including selective moratoria and loss equalization programs.²²⁻²⁴

In either of these two variations, the implementation of an E.S. program would have legacy values such as the development of a cadre of officials with actual experience in stabilization, and tested plans for implementation. This prior action would be extremely valuable in any subsequent condition of rising tension or an actual attack.

C. Rationale and Measures in Deep Crisis and Post-attack

As conditions move towards deep crisis and strategic conflict, the place of the E.S. program would change from a primary to a supporting role. Table IV-2 summarizes the changes in the E.S. program as the intensity of the strategic situation increases. E.S. measures become more comprehensive and severe; however, the resource management measures would become the primary means of controlling the economic/industrial system.

The principal objectives of the E.S. program during this period would be to maintain the confidence of the people in the present and future of the economy and to encourage their full participation in the recovery effort. For these purposes, E.S. measures must maintain a functioning economic/financial system and provide for equitable distribution of consumer goods.¹ In support of the resource management program, an E.S. program would provide for (1) proper allocation of essential resources to national priority requirements, and (2) maximum feasible production of essential products and services.

FIGURE IV-2

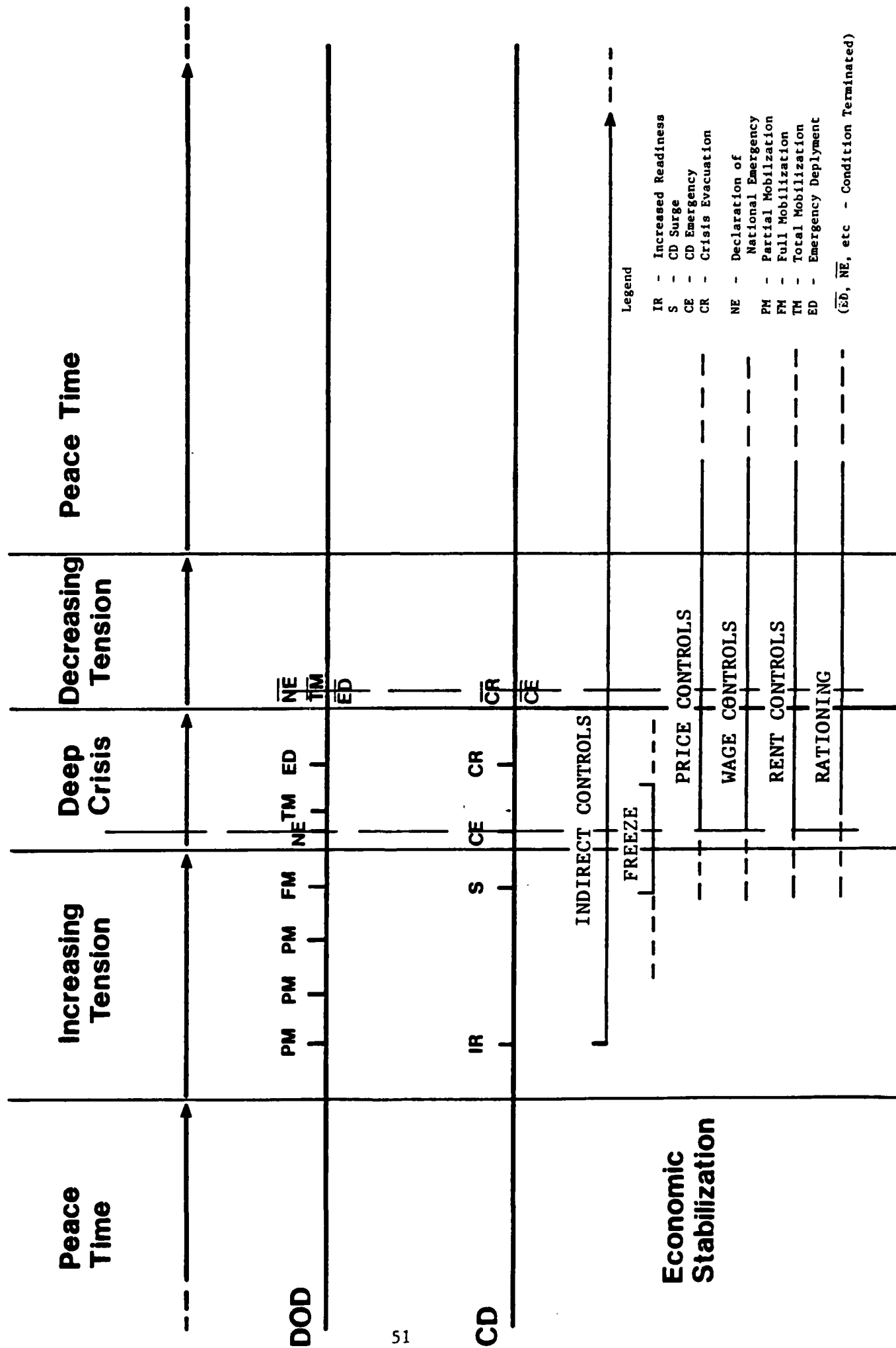


Table IV-2

Crisis Examples	Dominant Characteristics	Measures Tried (or potentially relevant)
Economic (I, II)	Energy shortage, unstable dollar, deficit and foreign trade crises.	Indirect controls; selective or tailored price and wage controls in most impacted sectors with close attention to agricultural and raw products.
Mobilization (IIIA)	Major shifts to defense leading to shortages of impacted materials.	Strong indirect controls, Federal direction of selective direct controls as needed.
General War (IIIB)	Full shift to defense with crisis induced shortages. E.S. problems dependent on capacity utilization.	Strong indirect controls, selective application of all direct controls under Federal direction.
Evacuation (IIIB)	Massive relocation disrupting normal trade flows with impacted reception areas.	General freeze including limits on cash withdrawals, Federal manage- ment of support for impacted areas.
Post Attack (IV)	Massive casualties and damage with bottlenecks. Conditions favorable to general acceptance of sacrifices for survival.	General freeze followed by R.M. and tailored controls, S&L or regional control when necessary pending full Federal direction and centra- lized planning. National survival taking precedence over equity but loss equalization policy for accept- ance, compliance, and enforcement of emergency measures.

The principal tool for the E.S. program in this period would be the General Freeze Order (see Appendix) covering prices, wages and salaries, and rents. If the General Freeze Order has been instituted prior to the crisis and attack, it would be maintained and would be augmented by a comprehensive consumer rationing program. If a previously instituted Freeze had given way to a E.S. follow-on program (i.e., tailored controls), the General Freeze Order would be re-imposed during crisis or attack.

Specific applications of these principles during intense crisis and early PA would be as follows:

1) Rent Control: In host areas, where a shortage of housing for evacuees would usually exist, added space should be obtained through direct control measures rather than through large increases in allowed rental rates. Primary E.S. efforts should be directed towards preventing gross inequities in rents paid by evacuees. Dissension resulting from such occurrences could sharply reduce the cooperation of evacuees and hinder emergency actions. Direct control measures might generate extra space by direct billeting of people in public and private buildings possibly preceded by a request for voluntary support of reception area residents.

2) Prices: From the point of view of equity, it would be desirable for all prices to be frozen until later in the post-attack period or until peaceful resolution of the crisis. New products and services (requiring new pricing) would likely be few in number during this period. However, old products and services would likely be found in a new environment that could affect price (products packaged in bulk for evacuees, longer distances for delivery of products, changed quality, change in product mix, etc.). However, price increases should be minimized even though inequities and even losses to business occur. Post event adjustments of prices might be considered where feasible.

3) Wages and Salaries: For purposes of equity, all wages and salaries should be frozen throughout the period. It would be particularly important that workers being directed to new jobs in the reception or undamaged areas be given the same wages and salaries as comparable regular employees. As new employees, they might not be eligible for all benefits under established rules of the firms. Supplements from the government might be necessary (e.g., reinsuring such employees through their original companies, providing direct health and other services, etc.). It would be particularly important that evacuee labor be provided with any special benefits provided to regular workers (e.g., extra food rations, transportation, etc.).

Completely new jobs (such as those created by emergency preparations or maintenance of the evacuees) should be paid rates established on an area wide basis by the government. For unskilled positions, payment might be in-kind for support services rendered to them (e.g., cost of billeting, feeding, etc.). Skilled positions (road equipment operators, etc.) should be paid at the same rates as indigenous labor.

4) Financial Operation: Financial plans envisage continue processing of outstanding checks even on inoperative banks and guarantees against bank failures from crisis induced causes. However, plans do not consider insolvency of individuals or enterprises including other financial institutions such as those in insurance, real estate, or securities. Ultimate resolution of the host of financial and legal problems might be deferred for a long period. Therefore some reassurances may be needed. Also, general morale would require incentives for individuals to contribute gainfully to the pressing needs of the greatly changed economy. Job placement services, workforce programs and counseling may be the most urgent need in manpower controls and human resource management.

D. Adjustments to Economic Stabilization Controls

It is unlikely that any meaningful adjustments could be made to the freeze order during a short crisis period or immediately after attack although some blanket exemptions might be part of the original freeze order or subsequent to its announcement. In the post-attack period after initial reconstitution of essential economic activities, a minimum number of adjustments might be considered.

Price controls during a freeze would be general but based on the simplest possible formula (e.g., no change from a stipulated base date). Adjustments, however, would respond to priorities, to bottlenecks, and to needs for plant conversions in support of resource management goals. More complicated adjustment formulas (e.g., those based on markup percentages or profit margins) would be used to accommodate accounting, pricing, or data retrieval characteristics of particular industries.

Wage controls would admit adjustments to provide incentives supporting new priorities but should otherwise preserve customary pre-crisis differentials. Fringe benefits or other perquisites could be used wherever likely to produce stronger or more economical incentives than adjustments in hourly rates.

Acceptance of controls would be furthered by widespread dissemination of reasons for specific settings of levels. Rumors of higher rations or better living in particular areas or among special groups should be recognized and full discussion should be provided covering truth or falsity, proposed remedies and justification for any differentials permitted. Exhortations to voluntary restraint cannot be relied on and should be avoided. The adjustment procedures must compromise between overly frequent changes and sluggish response to rapidly evolving requirements. This suggests reliance on a system with built-in flexibility and self adjusting formulas (e.g., profit margin or markup percentages). The mechanisms of the system, however, should be practical and inherently self policing and hence involve compromises between posted ceiling prices and formula flexibility.

Timing of announcements and preparation and dissemination of information must avoid premature leaks, any appearance of insider advantage and demonstrate fairness in selection of base periods, dates, exemptions, or exclusions and levels.

Indirect controls such as increased or accelerated withholding taxes, voluntary or mandatory savings with guaranteed future value (e.g., by variable interest rates or indexing) could help direct controls in deferring consumption and reducing inflationary pressures. Price and wage controls should maintain profit incentives but slow cost escalation. This again requires consistent treatment and coordination with resource management.

E. Key Elements of an Acceptable Program

1. Coordination

A major requirement for a general stabilization program is maintaining close coordination among resource management goals, associated priorities, and both indirect and direct controls limiting aggregate demand to complement measures applied to specific trouble areas (e.g., conservation actions or relieving bottlenecks).

2. Coverage

Selection of goods or services for price controls and especially rationing (or for exemption from controls), for allowing subsidies or incentives, and for application of

different types of control procedures should be allowed to vary with the circumstances. An initial freeze, although broad and oversimplified, should still limit rationing to essential items.

3. Operations

The escalating complexities of coordinating a hierarchy of control measures require constant efforts to keep procedures for registration, certification and similar mechanics of the system as practical as possible depending heavily on decentralized processes.

4. Monitoring

Controls work best if responses are made visible to the general public and can be monitored by public observation supplemented only by direct investigation applied to trouble areas, or self-monitored by required record keeping and summary reporting.

5. Public information

A continuing program of appropriately timed, simultaneously disseminated announcements, clear instructions, and realistic explanations and assessments is essential to effectiveness and acceptance.

V. ALTERNATE PAYMENT AND RATIONING SYSTEMS

A. General Problems and Systems Objectives During Evacuation and Post-Attack Scenarios

1) Problems Encountered. In peacetime, transaction (e.g., payment and rationing) systems are confronted with operational and technical problems that must be routinely resolved. These problems include clearing checks, processing credit card sales slips, replacing worn out currency, keeping transaction accounts, billing for accounts receivable, and so forth. Transaction systems operating under evacuation and post-attack conditions must resolve much the same general problems as their peacetime counterparts. The significant difference between the systems is not so much the problems but the environments in which the problems must be resolved. Because of the stringency of possible emergency environments, alternative emergency transaction systems need to be evaluated.

2) Transaction Systems Objectives. Before the proposed transaction systems can be evaluated, their purpose or objectives need to be understood. The objectives of a "proper" payment or rationing system are stated in the literature. Both The National Plan for Emergency Preparedness²⁵ and the Impacts of Crisis Relocation on U.S. Economic and Industrial Activity²³ provide economic stabilization and alternative payment system objectives. A combined list of objectives would include:

Objective 1 -- to facilitate equitable and efficient distribution of essential goods and services for all designated populations and essential supporting agents (e.g., individuals, governments, industry, retail and wholesale outlets, transportation and energy, financial institutions, etc.)

Objective 2 -- to restrain and combat inflation, whatever the cause: shortages, maldistribution, speculation, and so forth.

Objective 3 -- to maintain confidence in public and private financial institutions and to avoid using nonmonetary payment systems.

Objective 4 -- to minimize effort and resource costs of transaction systems operations and transitions during and between emergency periods.

A set of more specific goals can be derived from these objectives to provide a basis for evaluating the alternative systems. A proper transaction system should be:

- A. **Deployable**; its mechanisms must be available, transportable, and receivable for authorized users and points of sale (POSs) so that all specified individuals and essential organizations can use the system to buy, sell, and ration goods and services.
- B. **Controllable**; it should be accountable during, after, and between periods in order to restrain illegal activities, limit losses and mechanism (e.g., currency or ration cards) transfers to unauthorized users, and facilitate billing. It should operate through appropriate financial and control institutions (e.g., banking systems, ration boards, Economic Stabilization Agency) to maintain stability through their means of control (e.g., discounts, money supply, directives, procedures).
- C. **Acceptable**; a transaction system should be accepted by all users as a legitimate and workable instrument of exchange for goods and services. "All users" include authorized individuals, organizations, vendors, customers, retail, wholesale, government, private, and so forth. Also a part of this goal is the condition of affordability. Suppliers and users must be able to afford the system in order for it to be acceptable.
- D. **Durable**; each mechanism should endure and survive the hardships and vagaries of the expected emergency and transitional (e.g., transattack) environments so that transactions can begin and continue over the entire planning horizon (e.g., 2 to 4 weeks for an evacuation period and up to a year for post attack).
- E. **Compatible**; each mechanism and supporting component should be compatible with other systems for the exchange of goods and services as well as with the expected support systems and technology. The system should apply to and be workable with a diverse range and mix of specified goods and services, a wide scope of probable emergency scenarios, and a select list of authorized customers and vendors.
- F. **Tractable**; the system should be easily learned by and familiar to all users. This includes both the transaction mechanisms (e.g., dollars, credit cards, checks), and their supporting components (e.g., sorters, encoders, proofers, printers). This goal also includes operational and maintenance tractability.

While no one system can attain total success for all six goals, the closer a system comes to attaining these normative goals, the better it should come to satisfying the emergency transaction needs. It should be briefly mentioned here that, in actual practice, no one system would be used alone. The flexibility and reliability attained through redundancy suggests that several compatible systems would probably be the best choice for emergency operations.

B. Introduction to a Generic Transaction System

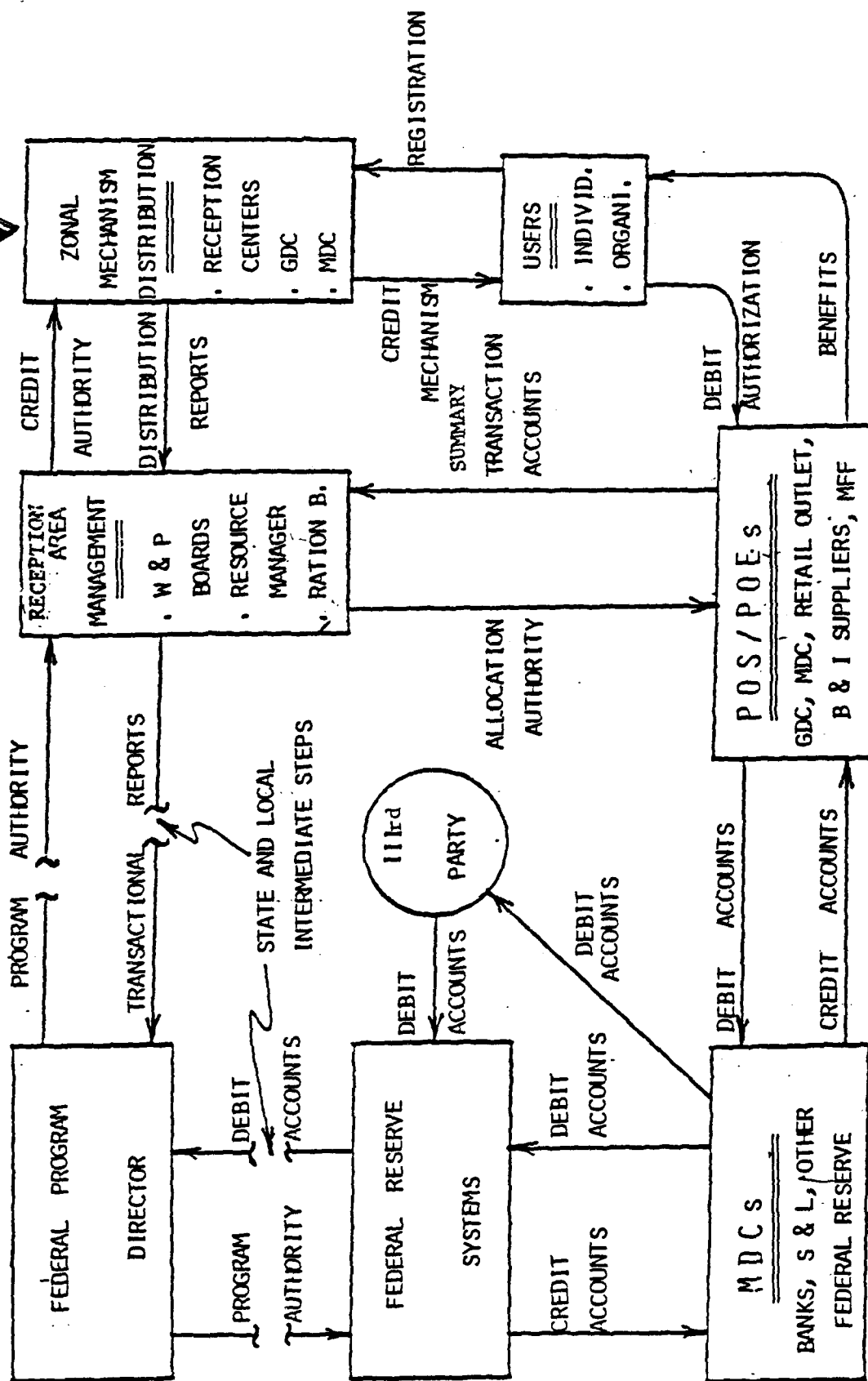
Transaction systems for emergency use could consist of two types of transactions: payment and rationing. Rationing could be in conjunction with payment or apart from it; that is, a customer might or might not need to also pay for a rationed item. A system without payment, the Dole, could also be considered.

While various proposed transaction systems could differ in the mix of specific mechanisms (i.e., the physical elements: currency, ration cards, support equipment, etc.) and agents (i.e., the individuals or organizations using the mechanisms: banks, ration boards, evacuees, etc.) used to effect payment or to ration critical items, each is also somewhat similar to all the others. This similarity is depicted in Figure V-1 on the next page. A brief description of the figure will set the framework for evaluation. The explanation that follows first addresses the upper left-hand corner of the diagram and then proceeds around it in a clockwise direction.

The development, deployment, and employment (DD&E) of any transaction system will probably be the result of a program authority that is generated at the Federal level, shown here as coming from a Federal Program Directorate. Regional authorities (e.g., Federal Reserve banks) and State and local governments will take primary responsibility for implementing and administering the payment and rationing activities in their own jurisdictions until a national level program can exert control of the programs. Wage and Salary Boards and Price Stabilization Boards (W & P Boards), Resource Managers, and Ration Boards (acting in concert with Reception Area Managers (RAMs), banks, and other responsible agencies) will set the "credit" levels required to support the payment and rationing objectives of the transaction system. This credit authorization leads to the distribution of credit levels (e.g., so-many dollars, gallons of gasoline, meals) and credit mechanisms (e.g., credit cards, currency, checks, ration cards) to individual and organizational users upon their registration. The actual agents used to make the distribution would depend on the program and mechanisms chosen for distribution.

Individual or business and industry (B&I) customers use the selected mechanisms to receive benefits (i.e., goods and services) from a point of sale, when money is exchanged

FIGURE V-1



PAPER TRANSFERS/ STORAGE

WHOLESALE BENEFITS DISTRIBUTION

GENERIC TRANSACTION SYSTEM

for the benefits, or a point of supply, when it is not. These POSs often are also points of entry (POEs) into electronic-based transaction processing systems. Depending on the mechanisms used, POSs may be at government-operated distribution centers (GDCs) which distribute goods and services, monetary distribution centers (MDCs) which process the payments and the payment mechanisms, mass feeding facilities (MFFs) which provide prepared meals, authorized retail outlets which replace or supplement the GDCs and MFFs, or B&I suppliers which support essential industry. All of them are points of sales.

The amount of benefits authorized for issue to the POSs and subsequent distribution to their authorized customers is set by an allocation authority (e.g., ration boards, Reception Area Managers). For example, a gasoline GDC might be authorized to allocate 10 gallons a day to police, fire, and ambulance vehicles, only 5 gallons a day to public transportation vehicles, and none to privately owned vehicles. The total amount actually dispensed to customers is reported in summary transaction accounts to the appropriate manager; e.g., the total amount of gasoline distributed on a given day by a retailer (POS) might be reported to the local Resource Manager (e.g., wholesaler) for accounting and controlling purposes.

Returning again to the upper left-hand corner of the figure, fiscal authority (e.g., funding) and direction for the implemented program are concurrently directed through various levels of administration to appropriate financial institutions. These institutions might be major banks in major cities, including Federal Reserve and member commercial banks. Just as goods and services were managed through the local and State jurisdictions, monetary credit is similarly handled through the Federal Reserve system for supporting payments. This might be in the form of a physical transfer of currency, accounting transfer of credits, or some mix, depending on the system selected.

Federal Reserve controlled Monetary Distribution Centers (MDCs), associated with each Reception Zone,²⁶ are provided the appropriate technological support and monetary credit to process transactions made at POSs located in their own zones. Whatever the basis of the credit, as transactions take place, debit information is returned through the distribution agents back to an appropriate Program Directorate for processing. Sometimes a "third party" organization, such as a contracted clearing house, might be involved in the debit accounts processing. The payments made for goods and services during either evacuation or post-attack periods can be reconciled

with the transactions reports received from the Reception Area payments and rationing managers. Which accounts are payable and which are receivable will depend on the system employed for payments and rationing.

Table V-1 is a summary of the actual agents and mechanisms proposed for each of the five transaction systems to be analyzed. The Generic Agents found in the table correspond to the boxes shown in Figure V-1; only the Reception Area agents are cited.

To demonstrate the use of the table, the Check/Ticket Cards system, System #3, will be explained. It can be seen that the Reception Area Managers in System #3 include the area Ration Board, Wage and Salary Board and Price Stabilization Board, and the Resource Manager who controls the industrial resources. The payment and rationing mechanisms (in this case checks and ticket ration cards) are distributed to authorized customers by their Monetary Distribution Centers and zonal Reception Centers, respectively. It should be mentioned that the various distribution centers may perform their functions with the assistance of other agents. For example, MDCs might enlist the assistance of Facility Managers for the Mass Lodging Facilities (MLF) when disbursing currency or other payment mechanisms.

The authorized users in this system are individuals, business and industry representatives, and the public sector (e.g., utilities, fire, police). The points of sales or supplies employed in this system may include any combination of GDCs, MFFs, MLFs, private retail outlets, B&I suppliers, wholesale outlets, and public service outlets (e.g., fire and police). Finally, the MDCs which maintain the payments accounts and authorizations may include Federal Reserve member banks, branches, savings and loans, and other Federal Reserve institutions. Most of the agents used during evacuation and postattack recovery could be dislocated from the hazard areas and housed temporarily in other structures (e.g., tents, armories, and schools).

Table V-1. Reception Area specific agents by transaction system.

Generic Agent	Alternative Transaction Systems				
	Sys #1*	Sys #2	Sys #3	Sys #4	Sys #5
1. Reception Area Managers	Ration Board	Ration Board Wage & Price Board	Ration Board Wage & Price Board Resource Manager	Ration Board Wage & Price Board Resource Manager	Ration Board Wage & Price Board Resource Manager
2. Zonal Mechanism Distributors	Not Applicable	Reception Center MDC**	Reception Center MDC	Reception Center MDC	Reception Center MDC
Ration Mech:	Allocation Only	Punch Cards	Ticket Cards	Ticket Cards	Smart Cards
Payment Mech:	None	Currency	Checks	Credit Cards	Smart Cards
3. Users	Individual	Individual	Individual B&I** Public Sector	Individual B&I Public Sector	Individual B&I Public Sector
4. POS/POEs	GDC** MFF** MLF**	GDC MFF MLF Retail	GDC MFF MLF Retail Wholesale Public Service	GDC MFF MLF Retail Wholesale Public Service	GDC MFF MLF Retail Wholesale Public Service
5. MDCs	None Applicable	Banks Branches S&Ls**	Banks Branches S&Ls	Banks Branches S&Ls	Banks Branches S&Ls Federal Reserve

Table V-1 Continued

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*Note: System #1 is the Dole system, in which essential goods and services are handed out free of charge; therefore, it is not a true transaction system; that is, no value is exchanged for the benefits received.

**Note: MDC = Monetary Distribution Center, comprises the agents listed in section 5. of the table.

B&I = Business and Industry organizations.

GDC = Government Distribution Center, government run site for distributing essential goods and services to evacuees and hosts in the Reception Areas.

MFF = Mass Feeding Facility, temporary establishment for feeding evacuees.

MLF = Mass Lodging Facility, temporary establishment for housing evacuees.

S&L = Savings and Loans agents; plus any other Federal Reserve member agents.

C. Evaluation of Five Alternative Transaction Systems.

Five systems were selected for analysis on the basis of increasing control and technology support. Figure V-2 demonstrates the five alternative systems as they conceptually fit onto a scale of technology and the six systems goals cited earlier. The 5 systems, named after their principal POS mechanisms, are:

- o Dole, in which goods and services are issued without payments or significant rationing controls;
- o Currency/Punch Cards, in which currency is the principal payment mechanism and punch cards are the ration mechanism;
- o Checks/Ticket Cards, in which checks are the principal payment mechanisms and tickets are the ration mechanism;
- o Credit Cards/Ticket Cards, in which plastic credit cards are used for payments and tickets are used for rationing; and
- o Debit-Smart Cards, in which cards are used for both payments and rationing.

More complete mechanism descriptions are provided in the actual evaluations that follow.

By using the measures listed in Table V-2, the ability of each system to attain its major goals and to consequently satisfy the four objectives of a proper transaction system is evaluated. Four grading levels of goal-attainment potential were used: high, moderate, low, or none. In order to facilitate the evaluation, an ordinal value was assigned to each level: high=3, moderate=2, low=1, and none=0.

FIGURE V-2

TRANSACTIONAL SYSTEMS

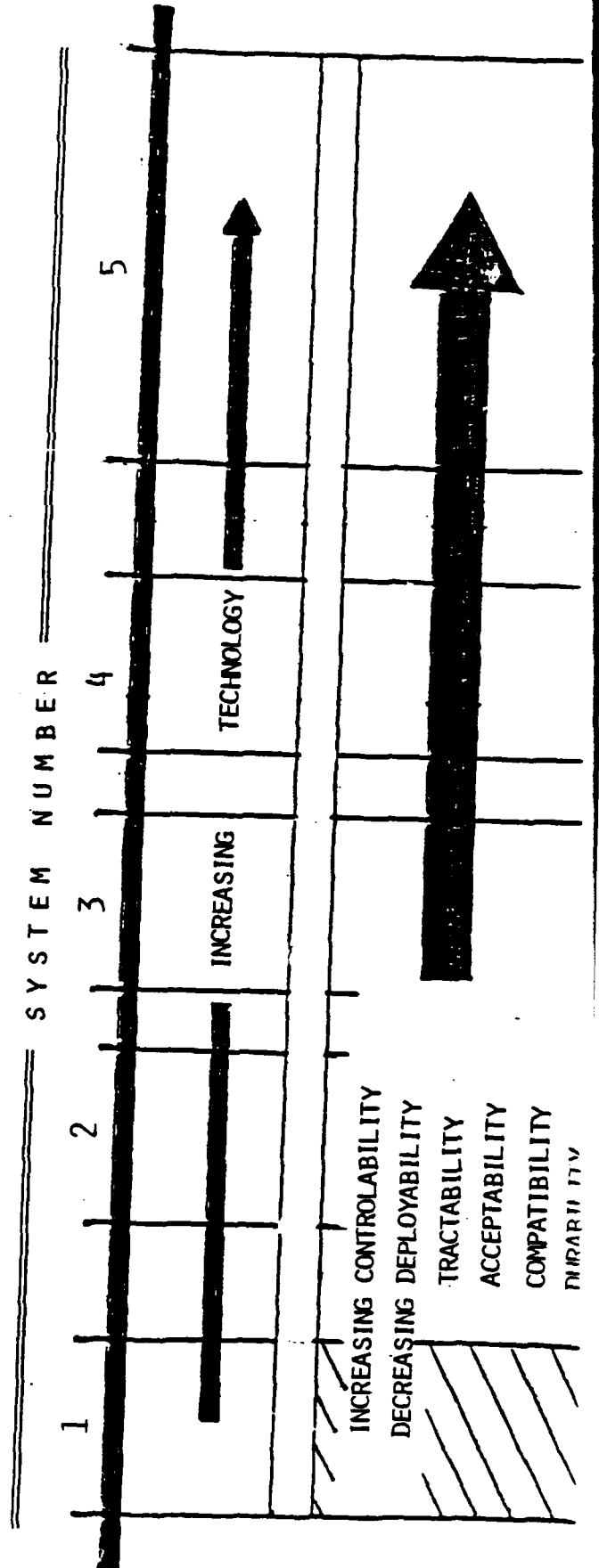
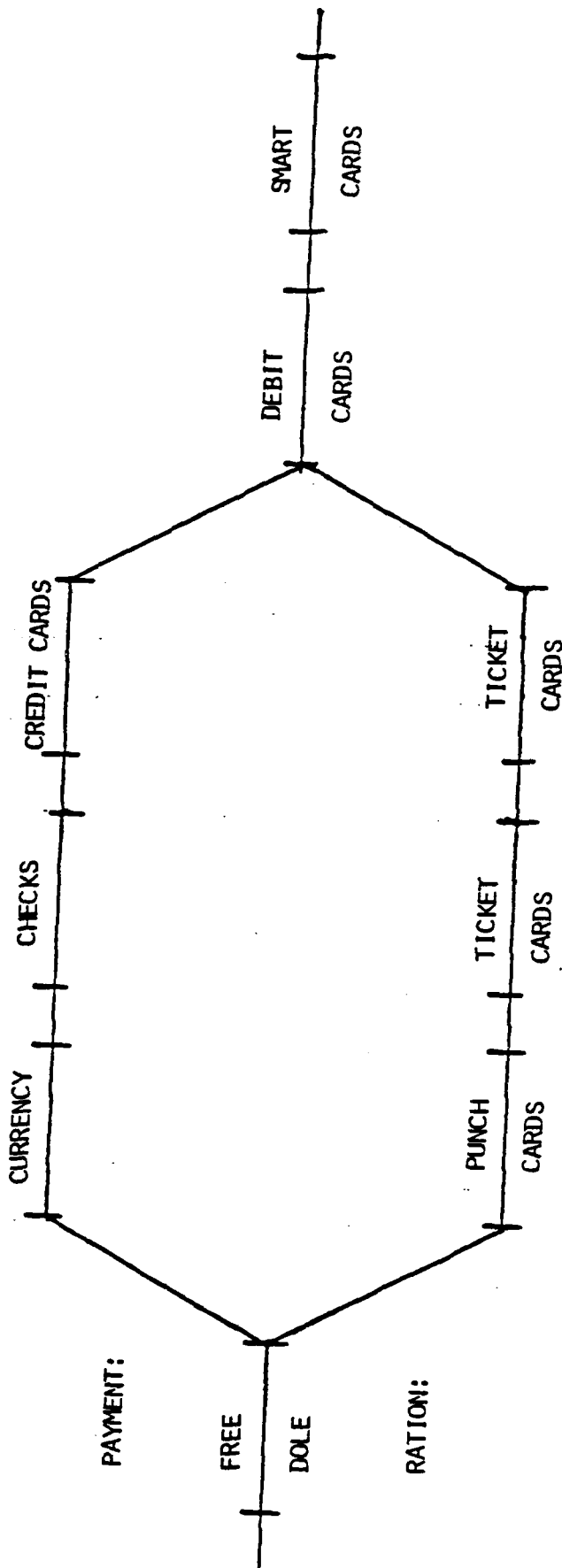


TABLE V-2
Measures of Effectiveness Used to Evaluate Goal
Attainability of Each Alternative Transaction System.

Goal	Measures of Effectiveness (MOE)
o Deployability	<ul style="list-style-type: none"> + system components currently available for deployment (e.g., less than 2-week stepup period) in sufficient quantity + components (e.g., support equipment, mechanisms) physically deployable (e.g., not anchored to floor or too large) + modes of deployment (e.g., trucks and trains) available during deployment period + pathways for deployment remain open + mechanisms are dispersible to both mobile (e.g., truckers) and fixed (e.g., host area) site users
o Controllability	<ul style="list-style-type: none"> + accounting is accurate and instantaneous (i.e., low float) + nonvolatile account records can be kept well beyond planning horizon + accounting is done at POS, local, area, regional, and national levels + multiple accounts can be maintained concurrently + accounting system can be maintained in duplicate or more for redundancy + payment system is monitored through Federal Reserve and Wage and Price Freeze Boards; while ration system is monitored through Ration Board and Resource Managers + accounts are assigned to specific users, with unauthorized access to accounts virtually impossible
o Acceptability	<ul style="list-style-type: none"> + system facilitates equitable distribution of goods and services + system development, deployment, and employment is affordable + system creates minimum of frustration and undue delay in queues + all stakeholders in system can use both the rationing and the payment system + the system is perceived as being founded on law and legitimate regulations

TABLE V-2 (continued)
Measures of Effectiveness Used to Evaluate Goal
Attainability of Each Alternative Transaction System.

=====	
o Durability	<ul style="list-style-type: none"> + component MTBFs sufficiently exceed planning horizons + maintenance support for components is available and operable + components are relatively invulnerable to damage mechanisms of expected hazards of crisis relocation/post-attack
=====	
o Compatibility	<ul style="list-style-type: none"> + system is compatible with national recovery and subsistence goals + system can be applied to a variety of essential goods and services + system interfaces well with other transaction systems + system components are interchangeable or substitutable + payment system is compatible with ration system and vice versa + system is robust and compatible with wide range of possible crisis relocation/post-attack scenarios (e.g., components will operate within expected physical and technological environment)
=====	
o Tractability	<ul style="list-style-type: none"> + component operations and maintenance are easy to learn by wide variety of users and labor + users are familiar with mechanisms through past usage + transactional procedures are simple, accurate, and quick + transitional requirements between periods and/or systems require minimum effort and management control + accounting procedures are simple, accurate, and quick
=====	

A summary of the systems evaluations as indicated by the rating values is shown in Table V-3. Each evaluation is predicated on a 1- to 2-week setup period maximum for all system components. For example, if a system includes ration cards, but the ration cards are not currently (i.e., 1984) printed, they are treated as being available if they can be printed within about 2 weeks; otherwise, they are evaluated as not available for deployment. As a result of this assumption, some of the higher technology systems just coming into the marketplace will rate very low even though their availability might be significantly improved in the future. A case in point is the Smart Cards system which is based entirely on high-technology components that are not yet sufficiently available for current deployment. Also assumed is that the postattack period is preceded by a precrisis period of sufficient length to permit the dispersal of critical mechanisms (e.g., ration cards or their reproduction proofs²) and other system components out of the Hazard Areas and into the Reception Areas.

Evaluation Rationale. Rationale and highlights of the analysis using the measures of effectiveness (MOEs) listed in Table V-2 are as follows:

System #1 - The Dole. This is not a true transaction system at all. There is no value given in return for benefits received. However, this does constitute a major system for distributing essential goods to individual users. Further, as shown in Table V-1, the agents (e.g., GDC, MFF, and MLF) used to distribute these free benefits are also included in all the other systems as well. In addition, as indicated in Figure V-1, the wholesale distribution of goods is also a part of the Dole as well as the other four transaction systems proposed. In other words, the Dole system structured in this analysis is the framework for distributing goods and services regardless of the transaction system addressed here.

The major weakness of the Dole by itself is that it exercises virtually no control over the goods distributed to the ultimate user. Only limits on the bulk allocation of goods to the distribution centers will limit the distribution of those goods to the customers. Further, the long customer queues that are expected should provide some disincentive to reenter a line to pick up more than a "fair share" of the benefits. But it is clear that neither of these "controls" is really very effective. Because of this,

Table V-3 . Evaluation of five proposed payment/rationing systems as alternative systems for crisis relocation/postattack.
(Basis is current mechanisms capability, not potential.)

Major Goals	Transaction System Number				
	#1	#2	#3	#4	#5
. Deployability	2	2	3*	2	0@
. Controllability	0@	1	2	2	3*
. Acceptability	1	2	2	2	2
. Durability	3*	2	2	2	1@
. Compatibility	3*	1@	2	2	1@
. Tractability	3*	2	2	2	1@

Notes: * indicates the system most likely to attain the goal indicated. @ indicates the system least likely to attain that goal.

the Dole is not likely to satisfy Objective 1 (to facilitate equitable and efficient distribution) and Objective 3 (to maintain confidence and avoid using nonmonetary payment systems). (See the Comments, Conclusions, and Recommendations subsection for a modification to the Dole that adds some controllability to this system.)

If the Dole is weak in controlling the distribution of limited resources, it does nothing to control inflation (Objective 2); in fact, it might easily contribute to it. The Dole has no payment mechanism. Therefore, it does not work through or otherwise involve the Federal Reserve system and all its economic stabilization tools (e.g., money supply, discount rates, and open market purchases). Currency in hands of users will exacerbate blackmarketeering, further destabilizing prices for scarce goods.

Despite the problems of controllability, the Dole does have three major strengths: it is durable; it is compatible with nearly everything; and it is easy to use. It is durable because there is very little that can break down in a handout system having no accounting requirements and that is based solely on manual distributions. It is compatible because it requires virtually no technological support (i.e., as soon as supplies are available, they can be issued), because it can be used within the context of other transaction systems, and because it can be used across a wide spectrum of emergency scenarios, including transattack. Finally, the Dole is tractable because there is little requirement for equipment maintenance or training.

While the Dole might not be a viable option for long-term emergency periods, it should be considered for short periods during which the proper technological support is not available for alternative systems. For example, during transattack, virtually every conceivable payment and rationing system component will shut down, either voluntarily or involuntarily, regardless of the transaction mechanisms supported. Similarly, during the early phases of a post-attack period, technological support for the other systems may be lacking to one degree or another. In sum, when there are no operational check encoders, sorting machines, microcomputers, cash registers, and the like, the Dole will still be workable.

System #2 -- Currency/Punch Cards. Some controllability is added by a system using currency as a payment mechanism and punch cards as a rationing mechanism. To obtain a degree of accountability and inflationary control, a higher level of technology is required. Sales receipts, cash registers, punching or marking devices, and so forth

become necessary. The components of the system can break down and wear out. Also, the components will require maintenance and the requisite repair expertise. Even so, the technology level required is sufficiently low that durability and tractability should be moderately high.

A major problem, however, is that of compatibility. The currency currently held in the vaults of U.S. commercial banks and branches and the Federal Reserve would be insufficient to meet the needs, especially considering distribution problems following a strategic attack on urban/industrial areas. With the proper planning, temporary forms of currency could be produced in various "Islands of Survival". Without such measures currency by itself may not be compatible with business and industry needs during evacuation or post-attack periods. Therefore, the currency mechanism is not likely to facilitate equitable and efficient distribution or to minimize effort and resource costs of operations and transitions, i.e., Objectives 1 and 4.

Punch ration cards that provide a simple check-off or punch-out of controlling numbers can be employed to limit distribution of critical resources. (See reference 1 for punch card employment.) However, because nothing is given in return for the benefits received, there is no accountability of the benefits issued by the distribution centers or retail outlets. Auditable post-period reckoning of accounts is therefore rendered infeasible. While retail outlets may find it quite acceptable to receive currency in exchange for the benefits they issue, they are unlikely to find it as acceptable to issue unpaid-for benefits without a means for billing the Government later.

System #3 -- Checks/Ticket Cards. If checks are added to a currency system, many of the objections to System #2 are mitigated, if not eliminated. When compared with their expected emergency-period demand rate, personal, business, and over the counter (OTC) bank checks, as potential payment instruments, are the most plentiful of all the payment mechanisms. Even if shortfalls should appear, more checks might be printed to meet the reduced demands as long as the appropriate plates or reproduction proofs are available. For example, each MDC might be equipped to print its own supply of emergency OTC checks appropriately stamped with some limited value (much like travelers checks).

Recent data²⁷⁻²⁸ indicates that, on an average, there is slightly over one checking (i.e., demand deposit) account per household in the United States. Even so, it

is clear that not all U.S. households currently have a checking account, especially families in the lower income brackets. For these cases, emergency OTC "travelers checks" or personal checks might be issued against credit guaranteed by the Federal Government.

Checking transactions during the emergency periods will be highly restricted if only because the sale items and outlets will be highly restricted. Many financial institutions, including Federal Reserve Banks, may shelve items for weeks rather than attempt to maintain clearing operations. However, the combination of lower items per day and an extra volunteer labor force, especially during evacuation, makes feasible limited local check clearing activities during the crisis periods (especially "on us" and local checks). Extending checking credit and restricting checking to "on us" transactions (e.g., checks drawn only on local MDC banks in the Reception Areas) would allow both individuals and businesses to acquire adequate subsistence benefits while, at the same time, providing an audit trail to facilitate post-period reckoning of their accounts.

By adding ration-card "tickets" that are surrendered to vendors upon receipt of a rationed item, post-period accounting of transactions for rationed goods is also made possible. This is a distinct advantage over the Punch Ration Cards that provide no audit trail. It is assumed that, like the Punch Cards, sufficient quantities of the Ticket Ration Cards can also be printed to cover about 84 million households.

With the proper rationing and payment controls, the Checks/Ticket Cards system should satisfy all four major objectives of an alternative payment-ration system. Also, this system might be coupled with System #2, to allow the use of currency for small purchases. In other words, except during phases of extremely low technological support, currency and checks, coupled with ticket ration cards would probably be a reasonable transaction system to use during evacuation and post-attack periods.

System #4 -- Credit Cards/Ticket Cards. While a few years ago this system might not have been a viable alternative because of limited credit card availability, U.S. News and World Report claims that in 1983 there were about 104 to 159 million Visa and MasterCard accounts alone in the United States.²⁹ However, there are many families (especially in the lower income brackets) that do not have credit cards. A credit card system is currently being tested by the Department of Agriculture for the

food stamp programs. Thus, many families in the lower income brackets may soon have access to a form of credit card. The imprinters used to print account information on the credit-card sales slips at the point of sale are now found in nearly every store of any size. Important exceptions are food supermarkets, which do not universally accept bank cards.³⁰

A requirement will still exist for a large number of credit cards. While there is some doubt that sufficient quantities of extra credit cards could be successfully deployed in two weeks, this fact does not completely invalidate the credit card payment system. The sales slips which are normally mechanically imprinted at the points of sales can, nonetheless, be imprinted manually, using either pencil or pen. Therefore, in addition to the purchase amount, account data, if assigned and known by a customer, can still be entered manually. An ordinary paper card similar to a social security card could be used to assign the account information. Thus, although it would be awkward and slow, a credit card system could function equitably even though some households do not have the plastic cards.

The other goal-attainment arguments offered for checking mechanisms in System #3 are also similar for the credit card mechanisms. Further, the ticket ration cards proposed for this transaction system are the same as that given for System #3.

System #5 -- Debit-Smart Cards. Because multiple accounts can be maintained by a single card, no separate system is required for rationing. For example, the increasingly popular automatic teller machine (ATM) debit card routinely accesses both a checking and a savings account. During emergency periods, these might be analogous to checking and rationing accounts.

This mechanism is incorporated into the newest and highest technology system currently used for transactions in the United States. Because it is so new, it is highly unlikely that in the near future sufficient quantities of the cards or the supporting electronics components could be made available for deployment to a sufficient number of stakeholders in the system. Unlike some banking debit card systems (e.g., the Plus system for the Bank of America), there are no nationwide networks of smart-card based systems. In fact, very few local smart-card networks have been established to date. Therefore, it must be concluded that, within the current timeframe, a smart-card based

system cannot be deployed within the two-week setup period assumed. The same is true for a debit card system, although "piggy backing" an emergency debit card system on currently established ATMs is more likely. But even this approach would take several years to install nationwide.

Controllability is the major strength of these electronic funds transfer (EFT) systems. There is no float period, so that both creditor and debtor accounts are instantaneously posted during a transaction. In the systems structure presented, only Federal Reserve MDCs are used as facilitators (i.e., facilities maintaining major electronic storage of the accounts on their computers); therefore, money supply information is readily available for the control of inflation. Further, appropriate Reception Area Managers are tapped into the remote area networks in each zone or area so that accounting for rationed items can be done instantaneously. Both systems require the use of a personal identification number (PIN) to gain access to an account for authorizing a purchase. This approach minimizes use of the cards by unauthorized customers. But this controllability, the best of the five alternatives examined, is not without its penalties.

First, the computer technology that gives smart cards their controllability is also quite vulnerable to weapons effects, especially EMP and blast. Even the local area network (LAN) microcomputers supporting smart cards at the POS are susceptible. Without some preventative measures, they are unlikely to survive even modest weapons effects. A debit card system must rely on a generally quite vulnerable centralized, remote network computer to continue operations. Therefore, a debit card system is potentially more vulnerable to weapons effects than a comparable smart-card system that can continue to operate on a limited basis even though its remote facilitator is inaccessible. Finally, unlike other systems that can, more or less, continue in a strictly manual, low-technology mode of operations, EFT systems like the debit or smart cards cannot be readily backed up by manual means. (A network diagram of a representative smart-card system based on the Data Key smart "card" (actually shaped like a key) of Data Key, Incorporated, Burnsville, Minnesota, is shown as Figure V-3 on the next page.)

Second, post-attack scenarios are usually conceptualized as being "low-technology" contexts. Therefore, power sources to provide requisite electricity and communications links may be disrupted. The availability of special maintenance and

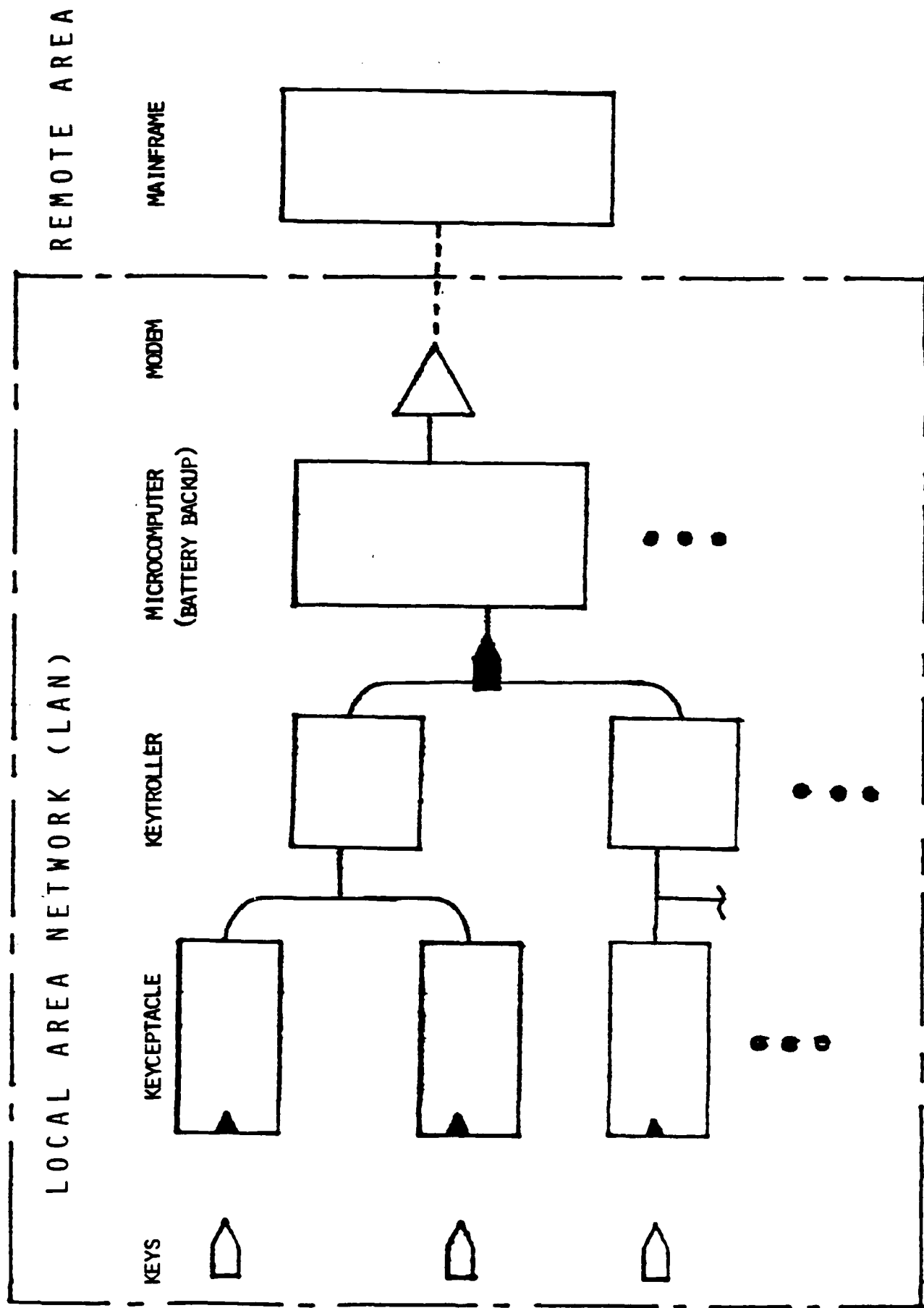


Figure V-3 Conceptual smart card (Data Key) payment system.

operating skills needed to keep such systems functional could very well be insufficient following an attack. Finally, the test and other equipment needed to maintain the electronic components of EFT systems are often also highly susceptible to weapons effects. Therefore, EFT systems are not particularly compatible with the low-technology support expected during post-attack periods.

Third, EFT systems are the most difficult to learn of the five systems suggested in this Section. The process of remembering a Personal Identification Number (PIN) to access accounts is difficult for some people, even in peacetime. The added uncertainties and apprehensions of emergency evacuation or post-attack would likely cause even more customers to forget their PIN. Reverting or reassigning a PIN in such cases is additional delay and frustration not needed during such emergency periods. In addition to using the cards, the level of learning to maintain supporting components is probably the most demanding of all the systems analyzed.

Despite its controllability advantages, it is unlikely that System #5, either debit or smart-card based, will be able to facilitate equitable and efficient distribution of benefits, to maintain public confidence in the system, or to minimize the effort and resource costs of its operations and transitions.

D. Comments, Conclusions, and Recommendations

Comments. There is another system, not analyzed here, worth mentioning because it offers unique possibilities as a viable alternative, especially in a low-technology environment. It is the Emergency Credit Income System (ECIS), which:

... would be a Federal program requiring official certification of resources and income sources by households and individuals wishing to receive essential goods and services for themselves and their families during the crisis relocation period.

Because minimum essential goods and services will be provided during relocation through this deferred payments system, large amounts of cash, credit cards, and checkbooks will not be necessary for transactions in the host area ...³¹

ECIS is similar to the Dole in that goods are given without immediate exchange of money. It is dissimilar in that users registering to use ECIS must eventually pay the bill on a per household basis. It is also dissimilar in that a simple punch ration card is issued to each registrant to show entitlement to the program and to limit the benefits received. After the end of the evacuation period accounts at the distribution centers will be submitted to the Federal Government which will, in turn, submit a pro-rated bill to those registered in the program. Those individuals who wish to do so can decline to participate. The ECIS could be combined with several payment and rationing mechanisms already described in this Section.

Conclusions.

1. Increased controllability is gained through increased levels of technology for the components and mechanisms used. While increased controllability is desirable to gain stabilization and to combat inflation, it is often gained at the expense of other desirable goals. In sum, as technology and controllability are increased, the following factors generally do not increase and usually decrease to some extent:

- o Deployability - high-technology components and mechanisms are not as readily available for deployment.
- o Acceptability - the newer technology is less familiar to users than the old, and inequities make the higher technology systems suspect.
- o Durability - electronics are more susceptible to weapons effects, and the lack of proper maintenance makes high-technology systems unreliable.
- o Compatibility - adequate technological support is less likely, and substitution of components and functions is more difficult.
- o Tractability - learning to operate high-technology systems is more difficult, as is learning to repair their components.

2. While each of the five systems was analyzed as a "stand alone" system, it is clear that combining two or more of the feasible systems is a more flexible and more

reliable approach. This conclusion is especially true as the technological support base for transaction systems changes (e.g., during transattack or recovery). For example, a currency system capable of operating at a relatively low-technology level in conjunction with a checking system requiring a higher level of technology would provide superior flexibility and reliability when compared to either system alone. Based on this preliminary analysis, there is reason to conclude that the preferred transaction system among those examined here for population evacuation and post attack may be a combination of currency and checks for the payment system, and punch card ticket ration cards for the rationing system (e.g., Systems #2 and #3, combined in some best mix). These systems might be suitably augmented by the ECIS system.

3. The Dole system as structured in this study is the basis for goods distribution for all the alternatives addressed here. Further, due to the likely depressed level of technology, the Dole will almost certainly be needed in an attack or evacuation. Therefore, even though it is not a true transaction system and even though it has virtually no controllability, it should not be overlooked as a viable alternative for special circumstances.

4. As technological support in an area or zone is recovered during either emergency period, improved controllability can be gained by incorporating higher technology systems. Thus, the Dole might be employed at the outset of evacuation, during its so-called transitional period. Then, as systems components are put in place and operational support is activated, a currency/check/tickets combination, for example might be activated to initiate greater control. If an attack is subsequently launched, the Dole can be reinstalled as the sole transaction system until technology has sufficiently recovered to support a more sophisticated system.

Recommendations. This brief analysis raises more questions than it can answer, given the funded level of effort. Therefore, it is strongly recommended that additional research be initiated to resolve the following issues:

- o What combination of payment-rationing systems will be best suited for economic stabilization, equitable distribution, confidence enhancement, and cost-effectiveness over a wide range of possible scenarios?

- o What preparedness and planning efforts must be implemented to incorporate a proper mix of transaction systems?
- o What physical-technical components and mechanisms must be developed and deployed, and what personnel and equipment support requirements will be required to employ the chosen systems during the emergency periods?

VI. REVISION OF ECONOMIC STABILIZATION GUIDANCE FOR STATE AND LOCAL AGENCIES

A. General

As part of this contract effort, an update of the Emergency Economic Stabilization Operating Instruction was undertaken. These instructions include guidance documents for economic stabilization of: prices; wages and salaries; rents; consumer rationing; and money, credit, and banking.

The original guidance documents were issued in 1965 (the wage and salary documents were subsequently updated to 1981). The purpose of the current update is to include the results of planning and strategic changes since the documents were originally written including the information presented earlier in this report. In addition, FEMA requested that the documents be written for a primary audience of State governors, and the heads of local jurisdictions. The money, credit, and banking guidance was to be directed toward top executives in the banking system as well as State and local government leaders.

In preparing the drafts, the Center staff has tried to use as much of the original document as feasible consistent with the policy, strategic, and technological changes that have occurred since 1965. As might be expected when prior material is applied to a new situation, a number of issues have arisen that have required careful consideration by our staff and by a group of well-qualified reviewers. Reviewers have included representatives from FEMA, HUD, DOA, and DOL. In addition, the guidance requirements were reviewed by consultants who have had distinguished government careers in past E.S. programs.

B. The Contents of the E.S. Guidance Documents

While the contents of the guidance documents varied considerably from one type of control to another, FEMA desired that the material be presented in a uniform format. Accordingly, a general format (Figure VI) was developed.

FIGURE VI

I. INTRODUCTION

- A. Purpose
- B. Objectives of the Stabilization Program
- C. Responsibilities

II. PLANNING ASSUMPTIONS

- A. Operational Conditions
- B. Islands of Survival
- C. Economic Stabilization Measures for Various Conditions
- D. Problems During Evacuation and Post-Attack Periods

III. GENERAL POLICIES AND AUTHORITIES

- A. General Policies
- B. General Instruments of Control
- C. Authorities

IV. THE EMERGENCY ORGANIZATION AND ITS RESPONSIBILITIES

- A. Federal Level
- B. State Level
- C. Local or Operating Level

V. CONCEPT OF OPERATIONS

VI. IMPROVING READINESS PRIOR TO CRISIS

- A. Operational Planning (General)
- B. Organizational Development
- C. Recruitment and Training
- D. Resource Planning
- E. Review of Authority

The Introduction contains the statement of the objective of E.S. controls in a crisis or post-attack. The primary objective would be to maintain and protect the surviving economy as part of the overall effort directed toward national survival and recovery. This section also indicates that the Federal government is responsible for the implementation and administration of nationwide economic stabilization measures in time of emergency. However, it is pointed out that in the advent of nuclear attack, the Federal government might be forced to rely upon State and local governments to implement various E.S. measures and to oversee their immediate post-attack administration.

Section II, Planning Assumptions of the new guidance, introduces the reader to the range of operational conditions under which E.S. measures might be undertaken (see Section I of this report). The concept of "Islands of Survival" is introduced as the basis for State and local action in the absence of prompt Federal action to establish and administer the program. In order to give the reader a grasp of the situations to be faced in intense crisis and post-attack, selected examples are presented of major problems in these periods requiring E.S. controls.

In Section III, General Policies and Authorities, the general instruments of E.S. control are introduced. The Federal General Freeze Order is described and is included, in its entirety, in the appendix of each document. Information in this and subsequent sections of the document is specific to the particular E.S. control being considered (i.e., prices; wages and salaries; rents; rationing; or money, credit, and banking).

Section IV describes The Emergency Organization and Its Responsibilities for State and local jurisdictions. In the event that the Federal Authority cannot act immediately after attack, this section discusses the means by which the Governors and local jurisdictions should organize to administer controls. Under these circumstances the States would have direct responsibilities for initiating and administering E.S. programs for prices, rents, and consumer rationing. Regional headquarters and other field offices of the Department of Labor would retain responsibility for wages and salaries; and the Regional Federal Reserve Banks would retain responsibility for money, credit, and banking operations.

Section V, Concept of Operations, summarizes the operational functions to be performed immediately after attack, including:

- o State level determinations of its role
- o Public announcements of General Freeze Order and related regulations
- o Initial implementing actions by local authorities
- o Follow-up announcements to the public

The final section covers Improving Readiness Prior to Crisis, Section VI. The section covers the types of actions that can be taken in peacetime by State and local government to raise their preparedness levels. Subjects include:

- o Operational planning
- o Organizational development
- o Recruitment and training
- o Resource planning
- o Review of authority

C. Recommendations on E.S. Guidance from Review Conference

A conference of principal advisors* to this project was held in Florida on 8-9 March 1984 for the purpose of recommending the policies and other materials that should be included in E.S. guidance documents. These recommendations were later used by the

* Attendees were Joseph Russo and George Divine of FEMA; Richard Laurino, CPR project leader; Edward Phelps and Leonard Skubal, consultants.

project staff to develop the draft Federal E.S. guidance documents. The principal recommendations and conclusions were as follows:

(1) General acceptance of the distinctions embodied in the ESA Phases (or Conditions).

The ESA phases (or conditions) proved to be an effective basis for evaluating E.S. characteristics, policies, and measures. Modifications suggested included:

- (a) Change the term "Phase" to "Condition"
- (b) Allow for limited controls in Condition IIIA
- (c) Make some detailed modifications of measures and objectives in various conditions.

(2) The E.S. guidance documents to be prepared by CPR should focus on crisis evacuation and the post-attack conditions.

It was generally recognized that the approach to economic stabilization prior to extreme emergency (Condition II and III) would be different than that required in crisis evacuation or post-attack conditions. Nonetheless, the E.S. guidance documents to be prepared by CPR should focus on the problems in the crisis and post-attack conditions. Discussion of the other conditions will be limited to a general orientation.

(3) The E.S. guidance documents should stress general characteristics and policies.

Many of the detailed procedures for direct controls found in the old E.S. documents no longer appear appropriate. The new E.S. guidance documents should emphasize general characteristics and policies. The E.S. guidance documents should be directed primarily at an audience of governors, mayors, and executive level planners (FRB, etc.). Documents or circulars detailing procedures should be rewritten by the Federal agencies involved (FRB, DOL, etc.). This detailed material might be distributed separately or as appendices to E.S. guidance documents being prepared by CPR.

(4) Most policies in the old E.S. guidance on the financial system still appear to be appropriate for the post-attack conditions currently envisioned.

Appropriate features include: the use of demand deposits as the primary basis for transactions, use of Agent Banks, Federal government guarantees against bank losses associated with early post-attack transactions, etc. The consensus was that less dependence should be placed on use of currency and that the old plan for the post-attack distribution of currency was probably not feasible. Also, the old E.S. guidance on "Money, Credit, and Banking" and the FRB circulars were judged to be completely out of date. New E.S. circulars should be issued by the Federal Reserve Banks, and the Agent Bank system should be revitalized. Reservations were expressed about the reform of the monetary system in the early post-attack period.

(5) The E.S. policies and E.S. guidance documents apply principally to conditions where relatively undamaged "Islands of Survival" exist after attack.

Some reservations were expressed as to the feasibility of economic stabilization following a "massive nuclear attack." However, currently planning assumptions include scenarios where relatively undamaged "Islands of Survival" possibly including major financial centers could exist in the post-attack period. The proposed direct controls were considered to be applicable under these latter conditions.

(6) Resource management measures are likely to be the principal means of economic control during extreme crisis (evacuation and early post attack).

The disruption, losses, and transient conditions in the evacuation and early post-attack periods will make necessary direct and detailed control of remaining resources. E.S. measures will fill a supporting role in these periods until the situation settles down to where the peacetime economic system and E.S. measures can become the principal means of controlling the economy. At the very least, early E.S. measures must bolster public confidence by demonstrating that the economy would continue functioning and that the payment for current efforts and indemnification for asset losses would take place in the future.

(7) Measures short of direct controls are limited in scope and effectiveness even in periods of rising tension.

It was recognized that measures taken in a period of rising tension were likely to be of limited effectiveness. Many of the measures taken in the past have proved ineffective. Others are of some value and are worth implementing. There was a consensus agreement for providing public information early in the period (Condition II) about legislation (standby or draft) that might be invoked including roll back provisions. The primary problem in Condition II was recognized as the difficulty faced by political decision makers in taking appropriate and timely action.

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Appendix

FEDERAL GENERAL FREEZE ORDER (Economic Stabilization)

Whereas, the President has proclaimed the existence of an unlimited national emergency and of a civil defense emergency, and has found that it is necessary to provide for resource conservation and control and for the stabilization of the civilian economy;

Now, Therefore, by virtue of the authority vested in me by the President, it is hereby ordered as follows:

Section 1. General Freeze.

All prices, wages and salaries, and rents are hereby frozen at the levels specified in section 2 of this order.

Section 2. Prohibitions.

(a) No person may charge, receive, or pay more for commodities and services than the highest prices which were in effect during the one-month base period (prior to the base date).

(b) No employer shall pay and no employee shall receive a wage, salary, or other form of compensation at a rate higher or lower than that paid or received as of (the base date).

(c) No person shall demand or receive, nor shall any person pay more than the following rent ceilings:

(1) The rent in effect on the base date for any housing accommodation, commercial, or industrial unit which was rented on the base date;

(2) The last rent in effect during the base period for any house, apartment, flat, commercial, or industrial unit which was not rented on the base date but was rented at any time during the base period;

(3) The ceiling rent established by regulation, directive, or order issued pursuant to this Order for houses, apartments, flats, commercial, and industrial units, for rooms of all types, and for any rented structure, unit, or space.

(d) No owner of any interest in real property shall demand or receive, and no purchaser shall pay more than the sales price ceilings, which shall be:

(1) The sale price specified in a sales contract signed by both parties on or before the base date; or

(2) Where there is no such sales contract, the fair market value of the property in the rent-control area as of the base date, as established by an authorized appraiser, subject to the approval of the local rent administrator.

Section 3. Consumer Rationing.

For a period of five days from the effective date of this Order, all retail sales, except perishable foods or any health item dispensed under prescribed procedures, shall be prohibited. Thereafter, rationing of selected essential consumer items will be imposed as rapidly as possible.

Section 4. Definitions.

(a) "Base Date": Base date means the date of the first nuclear attack on the United States.

(b) "Base Period": Base period means the one-month period prior to the base date as to ceiling prices, and the three months prior to and ending on the base date as to rents.

(c) "Persons": Persons shall include an individual, corporation, partnership, firm, or any other entity.

(d) "Price": Price shall include rentals, commissions, margins, rates, fees, charges, or other forms of prices paid or received for the sale or use of commodities or services or for the sale of real property, but shall not include prices on finished military items produced for the armed forces.

(e) "Commodity": Commodity means all commodities, articles, products, and materials, including those provided by public utilities services, such as electricity, gas, and water.

(f) "Services": Services means all services rendered, other than as an employee, in connection with the processing, distribution, storage, installation, repair, or negotiation of purchases or sales of a commodity, or in connection with the operation of any service establishment for the servicing of a commodity, or privileges including professional services. (The term "service" shall not be construed to authorize the regulation of compensation paid by an employer to any of his employees.)

(g) Wage, salary, or other form of compensation includes all forms of remuneration to an employee by an employer for personal services including, but not limited to, premium overtime rate payments, night shift, year-end and other bonus payments, incentive payments, commissions, vacation and holiday payments, employer contributions to or payment of insurance or welfare benefits or pension funds or annuities, and other payments in kind. Regardless of any right or contract heretofore or hereafter existing, no change or adjustment shall be made in such rates of wages, salaries, or other forms of compensation except as may be permitted or required by regulations, orders, or directives issued under this Order.

(h) "Sale": Sale includes sales, dispositions, exchanges, and other transfers and contracts and offers to do any of the foregoing.

(i) "Authorized Appraiser": Authorized appraiser means qualified appraiser designated by the local rent administrator to make appraisals in connection with the establishment of sales price ceilings for real property.

(j) "Essential Consumer Items": Essential consumer items means items that are used to satisfy essential needs of individual consumers, such as food, clothing, petroleum products, and other items as indicated in section 5.(b).

(k) "Retail": Retail (sometimes referred to as secondary) means the level at which commodities, products, and materials are sold directly to the consumer.

(l) "Rent": Rent includes charges for any building, structure or part thereof, or land appurtenant thereto, or services, furnishings, furniture, equipment, facilities, and improvements connected with the use or occupancy of such property.

Section 5. Interim Administration.

Until such time as a Federal emergency stabilization agency is created and is capable of administering the provisions of this Order, interim operations include the following:

(a) The Secretary of Labor is delegated authority to administer those provisions of this Order dealing with wages, salaries, and other compensation (and the resolution of any labor disputes that may arise) and to issue such regulations, orders, or directives as he deems necessary to such administration. He is further authorized to redelegate this authority to such officers of his Department as he deems appropriate.

(b) It is expected that the Governor of each State, through such State officers or agencies, local authorities including civil defense, and other emergency organizations as he may designate, will exercise such emergency authorities as are available to him under State law, to provide for the administration of those provisions of this Order dealing with ceilings on prices and rents, the prohibition of all retail sales, and the rationing of essential consumer items. In the course of such administration, the Governor through such designees is expected to make such essential exceptions to the prohibition-of-sales provisions of this Order as he finds necessary and shall designate those essential consumer items to be distributed through the consumer rationing system.

(c) It is further expected that the Governor of each State, pursuant to the laws of his State and supported by local authorities, will provide for the interim enforcement of ceilings established by this Order and of any regulations, orders, or directives issued pursuant to this section.

Section 6. Record Keeping.

(a) Commodities and Services: All records in existence on the date of this Order reflecting prices which were charged for the commodities or services during the base period, together with all other records of any kind or description, shall be preserved. All records hereafter required to be kept pursuant to regulations or directives issued hereunder shall be preserved.

(b) Rents: All persons subject to this Order shall preserve and maintain all records which are necessary to show the manner by which the ceiling rentals were determined and the record of payments made by persons in occupancy of real property or any part thereof.

(c) Wages and Salaries: All employers shall preserve and maintain all records which reflect the rates of wages, salaries, or other forms of compensation paid on the base date, together with all other records of any kind or description.

Section 7. Applicability.

The provisions of this Order shall be effective immediately and are applicable to the United States, its territories and possessions, the Commonwealth of Puerto Rico, and the District of Columbia.

Section 8. Termination.

This interim order shall expire when replaced by subsequent executive or administrative Economic Stabilization Agency orders.

Dated _____

Designated Federal Official

(Note: For planning purposes States are to assume that such an order will be issued by the Federal Government in a nuclear attack emergency.)